APPROACHES TO CDFI SUSTAINABILITY

THE ASPEN INSTITUTE

Economic Opportunities Program

Prepared for the Community Development Financial Institutions Fund
U.S. Department of the Treasury

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Please note that the views expressed in this paper are those of the authors, and not those of the CDFI Fund.

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Kirsten Moy
Project Director
July 2008

Abstract

CDFIs are being challenged to grow and reach a greater share of the underserved in the United States. They are working to do so in an increasingly competitive environment for both funding and customers. This struggle has raised some critical questions within the CDFI field. In this paper we attempted to look at sustainability within the context of increasing industry scale and the use of subsidy. Through quantitative analysis, a survey of industry practitioners, and a series of case studies, we looked at the state of sustainability in the field, and used those findings to develop a framework for understanding sustainability.

Sustainability, in this context, is not just about surviving. It is about thriving and growing to reach new underserved markets. To be sustainable, CDFIs need to operate effectively in both private and civic markets. The offer that CDFIs make to these markets, and the mechanisms that are used to deliver that offer, is what we are referring to as the business model. CDFIs tend to use highly customized business models that work in very unique markets. These business models are becoming increasingly sophisticated. CDFIs are also becoming smarter about their use of subsidies, which are necessary to reach underserved markets. Change is a given in the CDFI field. Investment needs to promote adaptability and competitiveness within both civic and private markets for CDFIs. Because of the size of many of the institutions, networks, cooperatives, and multi-organizational platforms can be important strategies to promote efficiencies, and greater scale and impact.

Statement of Need

Investors in Community Development Financial Institutions (CDFIs) have long prized these institutions for their capacity to reach under- and unserved markets, and to demonstrate innovation in products and services that effectively meet the needs of low-income individuals and communities. But the field has struggled with scaling up to meet the needs of more of the millions who require these services, finding the issue and challenges of scale closely intertwined with the issues of sustainability and subsidy. With the perception that traditional sources of funding for the field are tiring, and federal funding increasingly uncertain, CDFIs are confronted with both a mission to grow and a critical need to survive.

Some CDFIs have begun to implement strategies of growth and increased self-sufficiency, while others are pursuing alternative innovations that balance the increased costs of program expansion with sustainable sources of revenue. The conflating of sustainability with self-sufficiency has revealed some different perspectives among CDFI leaders, with some believing that self-sufficiency based on cost recovery is or will be possible, and others feeling that affordable products and services for the poor are possible only with continued public and charitable support.

Further, the field has evolved and begun to interact with mainstream financial institutions in new ways that benefit both the financial institutions and CDFI target markets. Research suggests, however, that CDFIs continue to absorb costs for essential services to clients—services without which the connection to mainstream markets would not be possible. Yet how to cover these costs is not yet clear: is it a matter of more precisely identifying these costs and factoring them into service contracts? Or is the issue more one of making the case for the validity of subsidy? This discussion is further hampered by the lack of a detailed understanding of just what subsidy is required for, how to calculate it, and how to assess its reasonableness.

The work on increasing CDFI sustainability has been further hampered by the lack of analysis: a set of data exists that has begun to describe the progress that large numbers of CDFIs have made towards self-sufficiency, but this data has not been systematically analyzed to reveal "the state of the practice" or to fully understand what has been accomplished across different sectors of the industry. An existing body of research considers experience in attempting to achieve sustainability in the nonprofit sector, but there is little that articulates this for the CDFI industry. At the same time, there are a set of organizations that are engaged in interesting approaches or innovations with respect to increasing their sustainability, and which can help illuminate these issues. But these initiatives, while recognized in some instances, have not yet been adequately studied or documented.

This research, then, has been designed to develop greater clarity regarding the thinking and practice around these issues. To that end, this document will provide a framework for understanding sustainability in the CDFI field, and will describe the state of the field as it struggles with the issue of sustainability, drawing upon a review of industry data sets and an Internet survey. It will also illustrate some exemplary approaches in the field through the use of case studies.

Methodology

Three main approaches were used to analyze the state of CDFI sustainability and develop a framework for a more widely shared understanding of this issue. The first approach was a review of quantitative data from three data sets: the CDFI Data Project (CDP), the CDFI Fund's Community Investment Impact System (CIIS), and the Aspen Institute's MicroTest database, to reveal the "state of the practice" of self-sufficiency and sustainability among CDFIs. These datasets are the most comprehensive sources of quantitative information on CDFIs, containing institution-level data on hundreds of organizations spanning (depending on the dataset) 1998 to 2006.

Most of the statistics are drawn from the CDP, an industry collaborative that produces annual statistics about CDFIs.[1] CDP data were available for the years 2000 – 2005. Additional data were available for 2006, but fewer data points were collected in that year, so not all data points were updated. The organizations represented in the CDP database are certified CDFIs and CDFI-like organizations.[2] In FY2005, 496 CDFIs with total assets of $20.8 billion were represented in the database. Longitudinal data on total assets were available for the period from 2001 through 2006 for 250 CDFIs (3 venture capital funds, 80 loan funds, 160 credit unions, and 7 banks). Longitudinal data were available for other data points as well, but the number of CDFIs with valid data in all years will vary by data point.[3]

The study also draws data from the CDFI Fund's CIIS database, which has institution-level data collected from CDFI Fund grantees between 2003 and 2005. All of the organizations reporting to the CDFI Fund are Certified CDFIs. The number of CDFIs reporting ranged between 173 and 236. Longitudinal asset information across all three years is available in the CIIS database for 86 CDFIs (6 banks, 8 credit unions, 71 loan funds, and 1 venture capital fund).

Data are also drawn from The Aspen Institute's MicroTest database on microenterprise programs in the United States. Data are available from 1998 through 2006. In 2006, 54 microenterprise development programs provided data, with 38 programs reporting disbursements of over $13 million in microloans.

For this study, data were analyzed that related to the size and growth of CDFIs, their sources of revenue, capitalization, portfolio quality, pricing, and survivability.

The second approach our analysis used was a survey of CDFI- and CDFI-like organizations across the country to gain the broadest possible understanding of sustainability strategies being practiced in the field. The Internet-based survey developed by the research team asked a series of questions

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[1] Organizations participating in the CDP include Opportunity Finance Network, Community Development Venture Capital Alliance, Association for Enterprise Opportunity, Coalition of Community Development Finance Institutions, CFED, National Community Investment Fund, National Federation of Community Development Credit Unions, and The Aspen Institute.

[2] A CDFI-like organization is a specialized financial institution with a mission to serve low-income individuals and communities. These organizations are not formally certified by the CDFI Fund. They fill a critical gap between the financial services needed in low-income communities and those made available from mainstream financial institutions.

[3] While the CDP collects data on more CDFIs and CDFI-like institutions than any other, it is still a subset of the industry. Institutions reporting data to the CDP could potentially differ from those not doing so. Without data on those not reporting, however, it is not possible to quantify those potential differences.

related to practitioners' views about sustainability, including how their organizations define sustainability, whether they have made progress in becoming more sustainable, and the strategies they pursue in order to reach sustainability. The questions are based on a review of the sustainability literature and an understanding of the gaps in information in existing datasets. The analysis of these responses forms the basis for the proposed sustainability framework presented later in the paper. (Survey results are described in detail in Appendix B.) The survey was sent in late 2007 and received 261 responses.[4]

Our third approach was to conduct in-depth interviews with the leaders of various CDFIs to gather detailed information about their innovations for achieving sustainability. The circumstances that these organizations have faced and methods they have used to increase sustainability also fed into the development of the framework for sustainability. In turn, the practices described by these organizations illustrate some of the sustainability lessons summarized later in the text. Interviewed organizations exhibit characteristics of substantive change over the past four years (e.g. increases in program scale, changes in sources of revenues, etc.), or demonstrate originality, strength of execution, or bottom-line impact with respect to their sustainability work. Organizations were also selected based on their diversity, both in terms of organizational type and the strategies they have followed to improve sustainability. An additional factor for choosing these organizations is that they have been less studied than other CDFIs. Appendix C contains a complete write-up of each case study.

In addition to these principal approaches, a set of expert interviews was also conducted to understand the experience of a broader array of CDFIs. Among them were interviews with representatives of five CDFIs, as well as with five informed observers of the field, most of whom are staff of key support organizations in the industry. Appendix E contains a complete list of interviewees.

[4] The survey was sent to as comprehensive a list of CDFIs and CDFI-like organizations as could be compiled at the time. The results are of those responding, whose views and experience may differ from those of the nonrespondents. Because multiple methods used to contact CDFIs, and several paths could be taken to access the survey, we could not calculate a response rate in the traditional sense.

Key Quantitative Findings

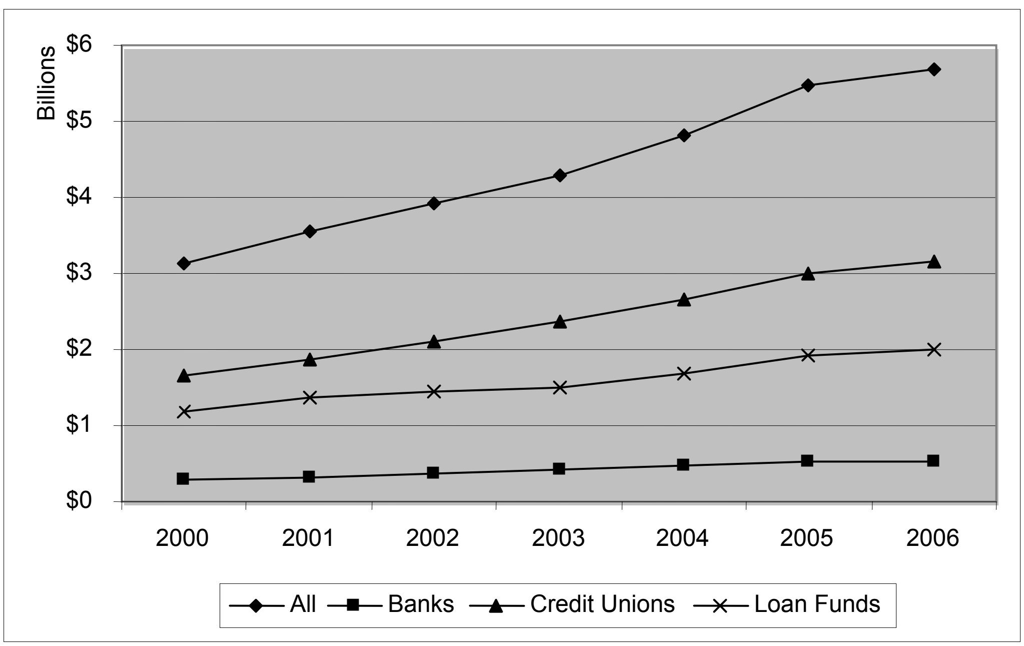
Statistics from the available databases on the CDFI industry (CDP, CIIS, and MicroTest) were analyzed to understand various aspects of CDFI sustainability, including growth (in both assets and lending), sources of capital and operating support (both generated internally and obtained from external sources), and some broad measures of risk (including net assets and portfolio quality indicators such as Portfolio at Risk). Various ratios were used to compare CDFIs to one another, such as the percentage of operating revenue generated from internal sources,.[5] Industry experts were used to obtain estimates on CDFI survivability. The resulting data informed the questions that we attempted to explore in more depth through the case studies.

From 2001 through 2005 the asset base of the CDFI field grew by 55 percent.
Among CDFIs that reported in all years, growth was fairly ubiquitous, with 88 percent of all CDFIs reporting an increase in assets. Financing outstanding has also grown, increasing $1.8 billion from 2001 through 2005, a 70 percent increase. Credit union assets increased by 69 percent. The assets of loan funds and community development banks increased by 39 percent and 34 percent respectively.

Chart 1 below shows the change in assets year-by-year for the period from 2000 through 2006. The analysis is based on 207 CDFIs with information on assets for all seven years.

Chart 1: Change in Assets 2000 – 2006 by Institution Type

Source: CDP



[5] Many of the statistics from the CDP and CIIS databases are drawn from CDFI organization-wide financial statements. The statistics are therefore not as detailed as would be ideal for a study of this type. For instance, we could not see how subsidies were being applied, or the financial performance of lending as compared with development activities.

Growth has been fueled by increases in contributions[6], earned income, and deposits.
This growth has been fueled by increases in all sources of operating and capital revenue. Contributions increased by 30 percent and earned income increased by 31 percent between 2001 and 2005, while deposits and member shares increased by 58 percent. While grants from the federal government did decrease over this period, increases from philanthropies, banks, and other sources have resulted in net increases of contributions over this period. (In fact, in 2005, 149 loan funds raised $224.3 million, an average of about $1.5 million per loan fund, although it is important to note that most of this subsidy was concentrated in a group of very large CDFIs. Forty-six loan funds received in excess of $1 million in subsidy in FY 2005, and 10 CDFIs have raised in excess of $1 million each year from 2000 to 2005.)

And 77 percent of banks reported an increase in deposits, while 81 percent of credit unions reported an increase in member shares. Between 2001 and 2005, deposits to banks increased by 49 percent and to credit unions by 84 percent.

Institution types vary significantly with respect to their size, sources of capital, degree of regulatory oversight, and percent of their revenues deriving from earnings.
While all CDFIs share a common mission to meet the financial service needs of low-income individuals and communities, they do so with very different institutional types, principal lines of business, and business models, as shown in Table 1. These variations have significant influence on organizational size, growth, and sustainability.

Table 1: Selected Characteristics of CDFI Institution Types

Source: CDP

Institution Type	Banks, Thrifts	Credit Unions	Loan Funds	Venture Funds
Typical Organization Form	For-Profit	Nonprofit Co-op	Nonprofit	For- or Nonprofit
Assets: Median	$121,587,000	$2,388,130	$7,673,880	$6,728,735
Assets: Minimum	$21,086,000	$23,252	$180,338	$352,407
Assets: Maximum	$1,681,045,000	$1,111,803,553	$957,552,593	$46,924,837
Share of Assets Held by Largest 10% of Institutions in Type	44%	77%	65%	39%
Principal Source of Capital	Deposits	Deposits	Borrowed Funds	Equity
Regulated?	Yes	Yes	No	No
Median Equity/Total Assets	NA	10%	27%	120%
Median Earned Income Index[7]	100%	100%	57%	100%

The reliance on subsidy for operations and growth varies among institution types.

[6] In general, "contributions" are voluntary gifts to charitable or public service organizations. Per CDP documentation, in these statistics "contributions" includes Unrestricted Operating Grants and Donations and/or Temporarily Restricted Grants released from restriction during the latest fiscal year. The definition also includes in-kind contributions. It does *not* include equity grants for capital, temporarily restricted grants that are intended for future operating periods, or grants that will be passed through to other organizations.
[7] The Earned Income Index is the ratio of Earned Income to Total Revenue. Because subsidies are at times difficult to detect in standard financial statements, an Earned Income Index of 100 percent should not be equated with the absence of subsidies.

While all CDFIs rely upon subsidies for at least some purposes, they do vary in the amount of subsidy needed to support ongoing operations and growth. The data show banks and credit unions typically operate at higher self-sufficiency levels than do loan funds, as illustrated in Table 2.[8]

Table 2: Self-Sufficiency Index[9] by Institution Type

Source: Ratios based upon CDP.

	Loan Fund	Credit Unions	Banks	Venture Funds
Mean	64.89%	104.82%	115.80%	68.31%
Median	63.00%	105.97%	111.13%	62.49%
Minimum	2.43%	42.95%	82.77%	2.38%
Maximum	224.96%	506.46%	160.26%	194.86%
N	148	114	51	15

Loan funds rely more heavily on ongoing operating subsidies and equity capitalization.[10] Only 11 percent of loan funds had a self-sufficiency ratio of 100 percent or greater in FY2005, with an additional 16 percent within 20 percentage points of this standard. In FY2005, 149 loan funds reported raising $224,330,557 in contributions.[11] The majority of these funds were reported by a group of very large CDFIs.

Because loan funds are more heavily reliant on contributions, the next two sections will illustrate two important components of how loan funds are evolving.

Loan funds are becoming somewhat more self-sufficient, although this varies a great deal from year to year and the overall magnitude of the change is very low.

Over the period 2001 through 2005, the loan funds with longitudinal data in each year from 2001 through 2005 achieved an overall increase in self- sufficiency of about 6 percentage points. However, the self-sufficiency index varies considerably from year to year (the rate would vary, on average, +/- 6 points from one year to the next).This is illustrated by Table 3 below, which clusters loan funds into four groups based on asset size (with the fourth quartile representing the largest institutions).[12]

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[8] As we learned in the case studies, some subsidies can be difficult to detect through standard financial statements, the source of much of the industry data being analyzed here. However, while the absolute amount of subsidies is difficult to determine and likely to inflate the self-sufficiency rates for some institutions, the relative reliance on subsidies is still considerably higher for loan funds.

[9] The Self-Sufficiency Index is the ratio of Earned Income to Total Operating Expenses

[10] Equity capitalization is the proportion of a nonprofit's loan fund that is made up of gifts and/or accumulated net assets. The equity is often augmented with borrowed funds. Per the CDP: Equity capital is the CDFI's Net Assets Available for Lending/Investing at the end of the year (a.k.a. Permanent Capital). It is a subset of the organization's Total Net Assets. It includes the amount of Net Assets restricted by donors or investors for use in financing activities plus any Unrestricted Net Assets that are designated by a CDFI's Board or are otherwise available for lending or investing. It does not include any Net Assets that are intended to fund operations (unrestricted or temporarily restricted).

[11] See footnote 3.

[12] The quartiles are based upon expenses, and the breaks are: first quartile: up to $481,632; second quartile: up to $841,937; third quartile: up to $2,140,000; fourth quartile: over $2.1 million.

Table 3: Self-Sufficiency of Loan Funds

Source: Ratios based upon CDP.

	2001	2002	2003	2004	2005
First Quartile	73%	54%	67%	65%	74%
Second Quartile	55%	55%	62%	120%	64%
Third Quartile	66%	56%	54%	61%	68%
Fourth Quartile	80%	69%	74%	63%	87%
All Loan Funds	76%	65%	69%	77%	82%

For those loan funds with data for all five years from 2001 to 2005 the median change in self-sufficiency is 3 percentage points. Slightly more than half (56 percent) of the loan funds increased in self-sufficiency, while the remainder either reported decreases in self-sufficiency (41 percent) or stayed the same. It is difficult to say whether these observed changes represent a significant trend.

All CDFIs use earned income and subsidy. Few loan funds focused exclusively on spread lending, and even fewer were able to do so profitably.

Income from lending is not always the principal source of earned income. In fact, pure spread lenders are quite rare among loan funds—only 23 of 150 lenders fit this criterion.[13] It appears very difficult for spread lenders to generate a positive return, given their reported cost structures, and as measured by the relationship of their yield to expenses on portfolio. Interestingly, while some very efficient programs were also very large, efficient programs were of all sizes. Table 4 below reports the top "highest" returns identified in the dataset among loan funds, only two of which are positive.[14]

Table 4: The Most Profitable Spread Lenders in FY2005

Source: CDP and Opportunity Finance Network (OFN).

Yield on Loans Outstanding	Expense/Loans Outstanding	Interest Rate Margin
5.24%	4.29%	0.96%
3.97%	3.45%	0.52%
3.58%	3.81%	-0.23%
4.86%	5.32%	-0.45%
7.38%	8.54%	-1.17%

This table provides statistics on loan funds only.

This reality underscores the role that subsidy plays for most loan funds. Direct contributions are the most common form of subsidy. But other sources of subsidy included below-market interest on borrowed funds or deposits, and off-balance sheet lending.

Closures are relatively rare, although there are notable exceptions.

In an attempt to get an idea of mortality of CDFIs, we undertook a simple procedure. We started with a sample of 342 CDFIs that reported data to the CDP in 2000. In partnership with industry

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[13] To be in this group, at least 60% of earned income had to be earned from interest on the loan fund.

[14] The return is based only upon interest from the loan fund, and does not include fees.

experts, we attempted to determine how many were still in operation in 2007. We found that 14 percent of these institutions were no longer in business in 2007[15]. Most (83 percent) of the organizations that closed were credit unions, as shown in Table 5.

Table 5: CDFI Closures by Institution Type

Source: The Aspen Institute.

	Total	Closed	Change
Loan Funds	137	5	-4%
Credit Unions	177	40	-23%
Banks	9	0	0%
Total	323	44	-14%

Nearly one-quarter of the credit unions in business in 2000 have since closed their doors, with most (74 percent) merging into other organizations. Okagaki and Tansey (2001) have concluded that the financially healthiest community development credit unions (CDCUs) are the smallest (less than $1 million in assets) and the largest (over $10 million in assets)[16]. Larger credit unions are necessary to afford professional quality management, conform to government regulatory reporting requirements, and offer a sufficiently broad set of competitive product and services. Currently a little more than one-quarter of the community development credit unions studied meet or exceed this $10 million asset standard.

Appendix A includes a more detailed presentation of these and other data findings.

This analysis, then, illustrates the complexity and fluidity of the situation with respect to self-sufficiency. How then is the field thinking about sustainability?

Key Survey Findings—How is the field thinking about sustainability?

Two hundred and sixty-one individuals responded to a survey seeking their perspectives on sustainability and their assessment of their own institutions' progress and challenges. Respondents represented the range of institutional types found in the field although the majority, 62.5 percent, represented loan funds.[17] Interestingly, more than half of respondents—56.4 percent—defined

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[15] We began with a list of the CDFI loan funds, credit unions, and banks that submitted data to the CDP in 2000, and representatives of the trade associations (Opportunity Finance Network [OFN] and the National Federation of Community Development Credit Unions [NFCDCU] . Using this list, we checked to see whether the CDFIs were still in business. In some cases the CDFIs continued to report to CDP and federal regulators. In others, disposition was known because of a general monitoring of the field (e.g. newspaper articles, merger notices). If, barring any other formal notification, a CDFI had no public presence (no website or other public notification that it was available for business) and/or did not respond to correspondence, the CDFI was presumed closed.

[16] Alan Okagaki and Charles D. Tansey, *Assessment of the Community Development Credit Union Field in the United States: Final Report*, submitted to the Economic Development Unit, Asset Building and Community Development Program, The Ford Foundation, December 2001.

[17] The majority of responses were from community development loan funds (160 responses, or 62.5%). Surveys were also received from 51 CDCUs (19.9%), 24 community development banks (9.4%), 10 venture capital funds (3.9%) and 8 intermediaries (3.1%). Twenty-eight organizations identified themselves as "other" CDFI-like organizations. More insight into their characteristics is available in Appendix B.

sustainability as "balancing a focus on mission, organizational capacity and capitalization such that our CDFI can sustain and/or increase its impact over time." This response rate for this question was fairly consistent across the types of institutions represented in the survey, and ranged from 62.2 percent for credit unions to 40 percent for venture funds. To the contrary, only 17.8 percent defined sustainability as "achieving 100 percent cost recovery through revenues from customers," with the responses ranging from 15.4 percent of loan funds to 26.3 percent of banks.

In addition, while just under 60 percent indicated that achieving 100 percent cost recovery was a goal or requirement of their CDFI, 32 percent indicated that it was ***not*** a goal or requirement for their organization. Among them, the majority—56.6 percent—were seeking to achieve at least 50 percent cost recovery. The second largest group—35.5 percent—was trying to achieve between 51 and 75 percent cost recovery.

These results suggest a nuanced understanding of the meaning of sustainability, probably grounded in the experience that is reflected in the data findings described above.

Just over a quarter of respondents—28.4 percent—thought that their CDFI had achieved sustainability (relative to their definition). However, 38 percent thought that they had made substantial progress toward sustainability, and 24.5 percent thought that they had made moderate progress. Fewer than 10 percent thought that they had made limited or no progress. While the majority, then, feel generally positive about the status of their institution, these findings suggest that most were continuing to identify and implement strategies that would improve the overall position of their institutions.

Among those sustainability strategies, practitioners ranked these as the most important that they were using:

- Scaling up loan volume (67.4 percent)
- Increasing efficiencies (46.1 percent)
- Strategic alliances/partnerships to reduce costs/increase revenues (41.3 percent)
- Introducing more profitable products and services (26.5 percent)
- Cross-subsidizing between profitable and unprofitable products/services (24.8 percent)

Further, they reported their primary uses of subsidy (defined as grant income, third party contracts or below-market financing) as follows:

- To cover cost of training/technical assistance and other development services (63.2 percent)
- To underwrite operational expenses of lending (51.7 percent)
- To develop needed technology, information systems, and other infrastructure (47.4 percent)
- To expand services to new geographic and demographic markets (45.9 percent).

In FY2006, the primary sources of subsidy for the responding CDFIs were government sources, foundations, and private financial institutions. Projecting forward to 2010, respondents expected these to remain the top three sources. However, fewer respondents thought that government would be a primary source, and more individuals believed that private financial institutions, individual donors/investors, and socially responsible investment firms would be primary sources.

Again looking forward to 2010, respondents perceived higher costs of funds to be the primary threat to their CDFI's organizational sustainability (56.3 percent saw higher costs as a threat). This was followed by increased competition (42.9 percent), changing donor interest (32.1 percent), greater losses (23.7 percent), limited geographic markets (19.2 percent), and too few product lines (18.3 percent).

A full summary of all the survey responses, including disaggregated results by institutional type, is included in Appendix B.

Case Studies--What do they reveal about approaches to sustainability?

The case studies that follow demonstrate how a diverse and interesting set of CDFIs have defined sustainability for their institutions, the strategies that they have pursued, the challenges they have faced and continue to face, and their accomplishments. Brief descriptions of each institution are included in this section, along with a rationale for their inclusion with this study. The accompanying Table 6 summarizes the specific initiatives that each is using as part of its efforts. The full case studies are included in Appendix C.

Case 1: Legacy Bancorp, Milwaukee, Wisconsin
Legacy Bancorp, Inc. is a $184 million, women- and minority-owned bank that focuses on lending to first-time small business owners that specialize in rehabbing distressed residential properties in Milwaukee. Begun in 1999, Legacy offers a normal array of deposit accounts (direct deposit accounts, money market accounts, time deposits), some single-family mortgages and other consumer services, although it is not primarily a retail bank. Legacy's sustainability strategy rests on a combination of non-residential real estate lending, participating in large corporate credits, attracting brokered deposits, improving corporate governance and deploying CDFI funds. Legacy upholds the principle that the bank cannot "do good" without "doing well." It cannot provide financial services to those who traditionally have been underserved without increasing shareholder value in the process. The organization is committed to its mission but evaluates virtually all of its activities for their impact on improving accountability and enhancing performance.

Case 2: University National Bank, St. Paul, Minnesota
University National Bank's niche is to serve small business developers and rehabbers in St. Paul, Minnesota. Since its purchase in 1996, the bank has originated and serviced loans to residents of the surrounding community, including Hmong, Burmese, Somali, and African-American customers, and attracted deposits from socially responsible investors and local customers. University has developed a profitable lending niche in the rehab market, increasing loan income for the past five years and posting a high net interest margin relative to its peers. University also integrates subsidy into all aspects of its work, whether it is SBA guarantees, attracting deposits from socially responsible investors, or deploying CDFI-funds. With the incorporation of University Bank, Franklin National Bank, and Park Midway National Bank (owned by the same family) into a single holding company in 2007, and the consolidation of administrative and support departments, University has made standardization and infrastructure important pieces of its sustainability strategy as well. Management's own perspective on sustainability is that social entrepreneurship, e.g., innovation and the assimilation of ideas, is the most important determinant of how the organization will survive over the long term.

Case 3: Generations Community Credit Union, Durham, North Carolina

Nationally there are half as many credit unions (8,105) as there were in the late 1980s. Credit unions are merging at the rate of one per day. A decade ago there were 17 CDCUs in North Carolina. Today there are five. Of the smaller credit unions in North Carolina, none were sustainable as stand-alone entities, and all assimilated into larger credit unions. Seven small credit unions merged into Generations, which allowed them to continue to offer branch financial services in rural areas through a new institutional platform.

Due to the small size and troubled nature of these institutions, very few economies of scale resulted from the mergers. To operate, Generations depends in large part on its relationship with the North Carolina Minority Support Center (NCMSC), a statewide intermediary that provides technical assistance, training, and financial assistance to credit unions in the state. NCMSC is supported by $3.5 million annually from the North Carolina legislature, and it shares staff and a service contract with Generations. In order to improve its profitability, Generations has plans to diversify its customer base to include more middle-income households and increase deposits, establish a church lending fund to build relationships with the faith community, reposition the credit union's brand and expand its marketing efforts to a broader audience, and improve technology and infrastructure. Generations also plans to explore further merger and/or branch deployment opportunities to broaden its reach and impact.

Case 4: Community Trust Credit Union, Modesto, California

Community Trust was originally chartered as the Tri-Valley Growers Credit Union in 1961. It expanded its membership to include employees from other food processing plants and, in 1983, changed its name to Food Processor's Credit Union. Employment in the food processing industry contracted during the 1990s, so in 2000 and 2001, after recognizing that its strength was serving the Hispanic market (most of its employees had Spanish-language skills and most of its membership was Hispanic), the credit union requested and obtained approval for a community (geographically-defined) field of membership to cover much of the Central Valley, and re-branded itself as Community Trust CU, with a target market of very-low- to low-income, predominantly unbanked Hispanics, generally with limited English skills, and including those without documents verifying legal alien status.

As with all credit unions, Community Trust must be profitable in order to be sustainable, and this profitability has been driven by leveraging a high margin loan product and keeping costs down, in part by participating in a credit union service organization (CUSO) for data processing operations. The organization has grown through a strategy of using partnerships and relationships to reach new customers, and expanding its geography through new branches. Community Trust created a Spanish-language call center for its operations and has sold its services to other credit unions. Subsidy has been critical for growth, producing positive results from 2001 through 2005. In the last two years, however, growth and profitability have been hurt by several factors that ultimately trace back to local economic problems detrimentally affecting the finances of its membership.

Case 5: Clearinghouse CDFI, Lake Forest, California

Clearinghouse CDFI is a for-profit loan fund serving low- and moderate-income borrowers and communities in Southern California. The organization spun off from the Affordable Housing Clearinghouse, a multi-bank intermediary, in 1996. Audited financial statements for FY2006 report assets of $208 million (up from $165 million in 2005) and net income of $3.9 million (up from $959,000 in 2005). Indications are that 2007 should match this growth and profitability trend.

The organization is profitable, in part, as a result of its relatively low cost of funds, made possible through Community Reinvestment Act (CRA) investments by banks and some program-specific foundation funding. Clearinghouse sees itself as an agile lender with no "off the shelf" products, and open to stepping into any market to fill unmet low- or moderate-income credit needs so long as it is financially feasible and profitable. Its initial lending activity focused primarily on commercial real estate, land acquisition, and development loans. Today, the organization has leveraged the New Markets Tax Credit program into a sizeable portfolio and a significant source of revenue. It also originates single-family home loans for sale to the California Housing Finance Agency (CalHFA) on a fee basis. The key to implementing its business model effectively rests with its management team, which has seen very little turnover, and staff, which is small and has the right people in the right positions.

Case 6: ShoreBank Enterprise Cascadia, Ilwaco, Washington

Jointly founded in 1995 by ShoreBank Corporation, a community development bank, and Ecotrust, an environmental organization, ShoreBank Enterprise Cascadia's (SBEC's) founders envisioned a new kind of development institution that delivered economic, social, and ecological outcomes in the rural coastal areas of Washington and Oregon. SBEC engages in a wide range of programmatic activity (from development and roll-out of new value-added food products to asset-building services for Latino immigrants), but its core business is small business and community facility lending. In 2007, after almost two years of planning and negotiation, ShoreBank Enterprise Pacific merged with Cascadia Revolving Fund, a loan fund serving all of Oregon and Washington.

Starting in 2005, SBEC began to comprehensively re-engineer the organization so it could grow, change, and thrive. This transition to a more highly self-sufficient CDFI was difficult for SBEC because of its underlying business model and its philosophy and approach to community development. Its business model, which is prevalent in the CDFI field, is characterized by high touch and customized products and intensive services to borrowers. In other words, SBEC's community development approach rules out the most obvious pathway to self-sufficiency: a CDFI transforming itself into a highly efficient, highly standardized transaction machine. On the other hand, without at least some of the elements of the highly efficient transaction machine, SBEC could not reach its goal of becoming more financially self-sufficient. Thus SBEC's pathway to greater sustainability has two aspects: (1) the changes to the business model to become more self-sufficient; and (2) its efforts to maintain a balance between its mission and business. As such, SBEC's sustainability strategy has five elements: (1) greater operating efficiencies through growth (portfolio, asset and geography); (2) greater productivity and cost control through technology; (3) mass customization; (4) fee income; and (5) smart subsidy.

Case 7: Charlotte Mecklenburg Housing Partnership, Charlotte, North Carolina

The Charlotte Mecklenburg Housing Partnership (CMHP) is a private, nonprofit housing development and finance corporation organized to expand affordable and well-maintained housing within stable neighborhoods for low- and moderate-income families in Charlotte and Mecklenburg County, North Carolina. The organization uses multiple, reinforcing strategies, including community revitalization, housing development, housing and financial counseling, mortgage lending, and asset and property management in order to reach its goals. CMHP has $128 million in assets under management, either directly or through affiliates, and has created or retained over 2,800 units of affordable housing.

CMHP is deeply embedded in the local civic sector, providing a for-profit sensitivity to quality and efficiency to move a consensus public agenda. Funding from the City of Charlotte provides a steady source of capital to fuel development activities, while the progressive investment process and civic participation within CMHP encourages a responsive market orientation. Public funding for the organization is dependent upon the organization meeting clear goals, and civic participation in CMHP brings critical market-savvy skills to the table. The organization uses national networks to lower its costs and expand its services, and participates in local civic networks to provide comprehensive revitalization and housing supports that help low-income people live in functioning, mixed-income communities.

Case 8: Justine Petersen, St. Louis, Missouri

Justine Peterson (formerly Justine Petersen Housing and Reinvestment Corporation) is a nonprofit loan fund with a for-profit CDFI subsidiary. Founded in 1997, the organization's original mission as a housing institution has since expanded. The institution now has a broad-based asset-building agenda focused on low- to moderate-income families and individuals. It targets low-income neighborhoods in St. Louis and in East St. Louis, Illinois, with the majority of its clients African American and female heads of households. Justine Peterson offers home ownership counseling, operates as a mortgage broker and real estate agency to connect clients to homes and mortgages, and provides home "retention" loans to help stressed families maintain their homes in difficult times. It provides business consulting and microloans to emerging entrepreneurs under its nonprofit and for-profit loan funds. It offers credit counseling and credit repair loans to improve clients' financial position; and offers Individual Development Accounts (IDAs) and financial literacy counseling. In 2007, it served 1,441 individuals across all its programs.

Justine Peterson, with total assets of $4.4 million, has prided itself on its ability to grow through its capacity to generate fee-for-service revenue and to excel on performance-based grants and contracts. But its new strategic plan recognizes that further growth, especially of its microloan portfolio, will require additional steps. Its business model is premised on achieving 100 percent financial self-sufficiency on its financing activities while continuing to raise subsidy for its IDA, home-ownership credit counseling, and small business technical assistance programs. To do this, however, requires that Justine Peterson generate more flexible loan capital, generate more earned revenue, and build a larger local donor base. Already the organization is a high-performing microlender, ranking among the top in loans originated and the efficiency of its operation. The case illustrates both the limitations of depending on its current funding—primarily restrictive performance-based contracts—and how a better strategy for growth and sustainability can be developed. Such a strategy would focus on gaining more and better subsidy, combined with a pricing strategy that makes sense for it and its customers.

Table 6 on the following page summarizes some of the sustainability strategies that each of the case study organizations used.

Table 6: Sustainability Strategies of Case Study CDFIs

Source: Survey of CDFIs.

Case Study	Top Three Self-Identified Strategies Employed By Organization								
	Scaling up loan volume	Modifying pricing of products and services	Increasing efficiencies	Cross-subsidizing between profitable and unprofitable products/services	Introducing more profitable products and services	Selling products/services to other institutions (e.g. consulting, management, or back-office services; curricula)	Cultivating a committed donor base	Strategic alliances/ partnerships to reduce costs/increase revenues	Changing institutional structure (merger, acquisition, transformation to a regulated institution)
University Bank *									
Legacy Bancorp		X	X					X	
Shore Bank Enterprise Cascadia			X	X					X
Clearinghouse CDFI *									
Community Trust Credit Union				X		X		X	
Generations Community Development Credit Union	X				X			X	
Charlotte Mecklenburg Housing Partnership				X			X	X	
Justine Petersen	X		X		X				

* Did not respond to survey.

Findings: A Framework for Sustainability

The previous sections provided a description and analysis of the field, offering a broad look at the industry from the perspective of data and practitioners' assessments, and from the in-close examination of eight organizations' approaches to sustainability. This section, and the one that follows, will suggest a framework for better understanding sustainability among CDFIs, and will summarize findings that reflect the state of the practice with respect to achieving it.

What is sustainability?

Echoing the thinking of CDFI practitioners, as expressed in their survey responses, CDFI sustainability needs to be defined more broadly than cost recovery. In short, sustainability represents an institution's ability to maintain and/or increase its impact over time. This simple definition, however, cannot stand on its own. It implies a number of related concepts:

- As 56 percent of the organizations indicated, for them s*ustainability involves balancing a focus on mission, organizational capacity, and capitalization.*[18] This recognizes that tensions may exist between achieving mission and depending on earned revenues as the sole financing engine for an institution. It further implies that the formula for achieving sustainability will vary among institutions and depend upon their assessment of the relative importance of mission and earned revenue goals. In defining sustainability in this way, practitioners recognize that sustainability is not a static state, but rather a continual process of reacting to external market changes and internal capabilities.
- *Sustainability represents the ability to maintain a degree of financial stability*, which allows the organization to withstand shocks and to continue to exist, doing by and large what it is currently doing, for some foreseeable time into the future.
- *At its best, sustainability means having a capacity to grow revenue and assets*—whether the sources are earned income, depositors, or donors—which allows the organization to expand and innovate. Because the definition reflects the goal of increasing impact over time, an essential feature of the definition is having not just enough to "survive," but having more than enough to "thrive" and make an increasing contribution to the solution of the social and economic challenges the institution was established to address.

Thinking about sustainability in this way makes clear that judging whether an institution is sustainable, or when it has achieved sustainability, is not necessarily easy. To what extent is it measured in the balance sheet? To what extent does it depend on qualitative factors such as management capacity, donor capacity, and the ability to innovate? Just as long-term businesses have found themselves losing ground to more-nimble competitors with better business models, past performance for CDFIs may not be an indicator of future durability and accomplishment in the face of internal or external changes. Becoming sustainable is akin to solving a puzzle, the fitting together of a variety of pieces that, when connected, produce a vibrant organism. And the reality for CDFIs is that these pieces need to be put together, not once, but again and again.

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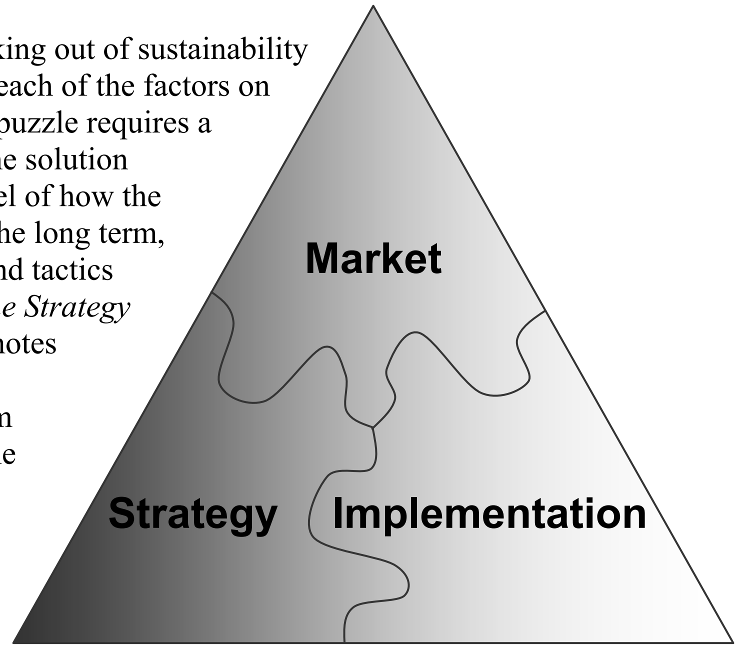
[18] Clara Miller, *Linking Money and Mission: An Introduction to Nonprofit Capitalization* (New York: Nonprofit Finance Fund, 2001); available from www.nonprofitfinancefund.org/docs/Linking_MissionWebVersion.pdf; Internet.

Solving the Sustainability Puzzle

The case studies, which follow, demonstrate just how that puzzle (see Figure 1) is being solved, or approached, by a number of CDFIs. Together, they suggest how challenging the act of sustaining an institution can be, and the variety of factors that need to be considered in remaining viable. These factors can be clustered into three categories—contextual or market factors, structure and strategy factors, and implementation or execution factors. Each cluster will be discussed below.

But it is important to understand that the working out of sustainability is more than just working one's way through each of the factors on the list. Progress in solving the sustainability puzzle requires a systemic approach, one that recognizes that the solution involves both an overarching vision or a model of how the organization will deliver on its mission over the long term, and a set of constantly fine-tuned processes and tactics that support it. In *Business Model Warfare: the Strategy of Business Breakthroughs*, Langdon Morris notes that a business model is a "comprehensive description of business as an integrated system functioning in an intimate relationship with the broader market….the individual components of an organization do not matter as much as the way they work together to enable the organization to create value and deliver it to customers…."[19] This conception rings true equally for CDFIs.



Source: The Aspen Institute/InnovationLabs.

Figure 1: The Sustainability Puzzle

Contextual or Market Factors

CDFIs, like businesses, operate in a market. In fact, they operate in two markets—the private market and the public or civic market. While some operate more fully in one than in the other, most CDFIs need to successfully understand and respond to both.

The private market includes borrowers, depositors, shareholders, and other investors. Some are clients seeking financial services offered on terms appropriate to their needs and aspirations. Others are investors expecting a competitive return or benefit. Demographics, the existing infrastructure and resource base, the characteristics of the competition, the presence or absence of supportive institutions, and the pace of change occurring along these dimensions will define the organization's products, services, pricing, and delivery mechanisms.

The civic market includes public, civic, or charitable investors that provide subsidies to lower or eliminate the cost of services to the direct (market) customer. These public/civic markets operate according to a different set of principles than private markets, and often with considerable complexity and variation. CDFIs may need to assess partisan influence or orientation, the changing

[19] Morris, Langdon. May 2003, 17-18. *Business Model Warfare: The Strategy of Business Breakthroughs*. Philadelphia, PA: Innovation Labs & Ackoff Center for the Advancement of Systems Approaches (ACASA).

priorities of philanthropic funders, investors, and civic institutions, the potential terms and availability of subsidy, and the characteristics of the competition.

The strength of connections to local civic agendas and institutions determines access to local subsidy. Within the case studies are institutions closely connected to municipal entities and policies, and drawing strong financial support from them as they act as agents of these policies. On the other hand, there are others that have operated more independently from the principal policy centers in their community, but whose future prospects for sustained external support may depend on making connections to those centers.

As Morris notes, a business's success depends on its deep understanding of its market, and its capacity to evolve in relation to changing market preferences. As the cases show, CDFIs must similarly demonstrate responsiveness to evolving market forces and seek a formula for sustainability that is both continually responsive to those forces and continually innovative.

Structure and Strategy

Structure and strategy are the heart of the business model. They reflect how well the CDFI has read the two markets, and what its value proposition to each is. Chart 2 illustrates some components of structure and strategy. Clearly, the choice of institutional type sets the stage for other decisions influencing how the CDFI will approach the issues of size, revenue sources and capital structure; what products and services it will offer; how it will position itself in the marketplace, and what regulatory environment will govern its operations. Each type offers a different mix of opportunities and constraints. Regulated institutions have the advantage of being able to capture deposits and offer a mix of savings products along with loan services. Loan funds, as nonprofits, may have greater flexibility with respect to the risks they take, and may more nimbly combine subsidy with earned revenue to offer value-added products.

Each institutional type also has its own tighter or looser imperative to achieve sustainability or even profitability. As the continuum in Figure 2 illustrates,

Chart 2: Factors Influencing Business Model

Source: The Aspen Institute.

Structure and Strategy Factors

1. *Institution type and organizational structure (NB: This is sometimes a given, as opposed to a choice.)*
2. *Mission and target market or market segments to be served*
3. *Orientation to growth*
4. *Mix of products and services*
5. *Pricing*
6. *Service delivery (mechanisms, channels, style)*
7. *Strategic alliances and partnerships (who to work with and how)*
8. *Capitalization structure and sources, both market and public/civic/charitable*
9. *Use of subsidy*
10. *Investments in technology and other infrastructure*
11. *Positioning, marketing, branding*

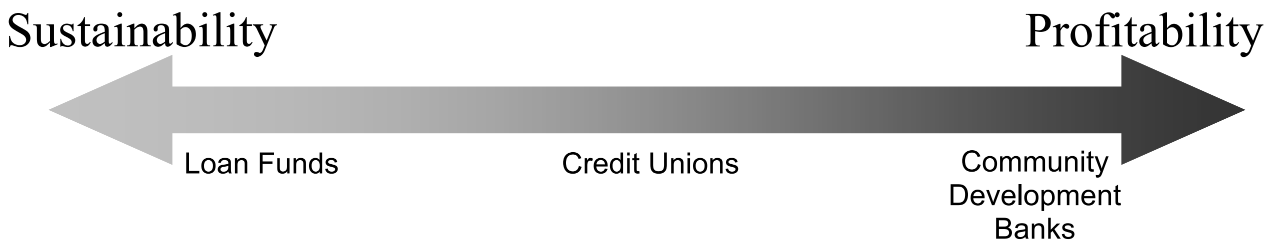
Implementation or Execution Factors

1. *Effective innovation*
2. *Political savvy and the ability to muster political support*
3. *Customer responsiveness*
4. *Operational competence in all key areas (risk management, financial management, service delivery, product development and rollout, etc.)*
5. *"Adequate" efficiency*
6. *"Superior" risk management*
7. *Adoption of meaningful metrics (operational and for impact)*
8. *Staffing and accessing talent*
9. *Flexibility: Ability to weather shocks and adapt to change*

regulated institutions typically have more formal and well-developed strategies for profitability and sustainability than loan funds:

Figure 2: Sustainability/Profitability Continuum

Source: The Aspen Institute/InnovationLabs.



Implementation or execution factors

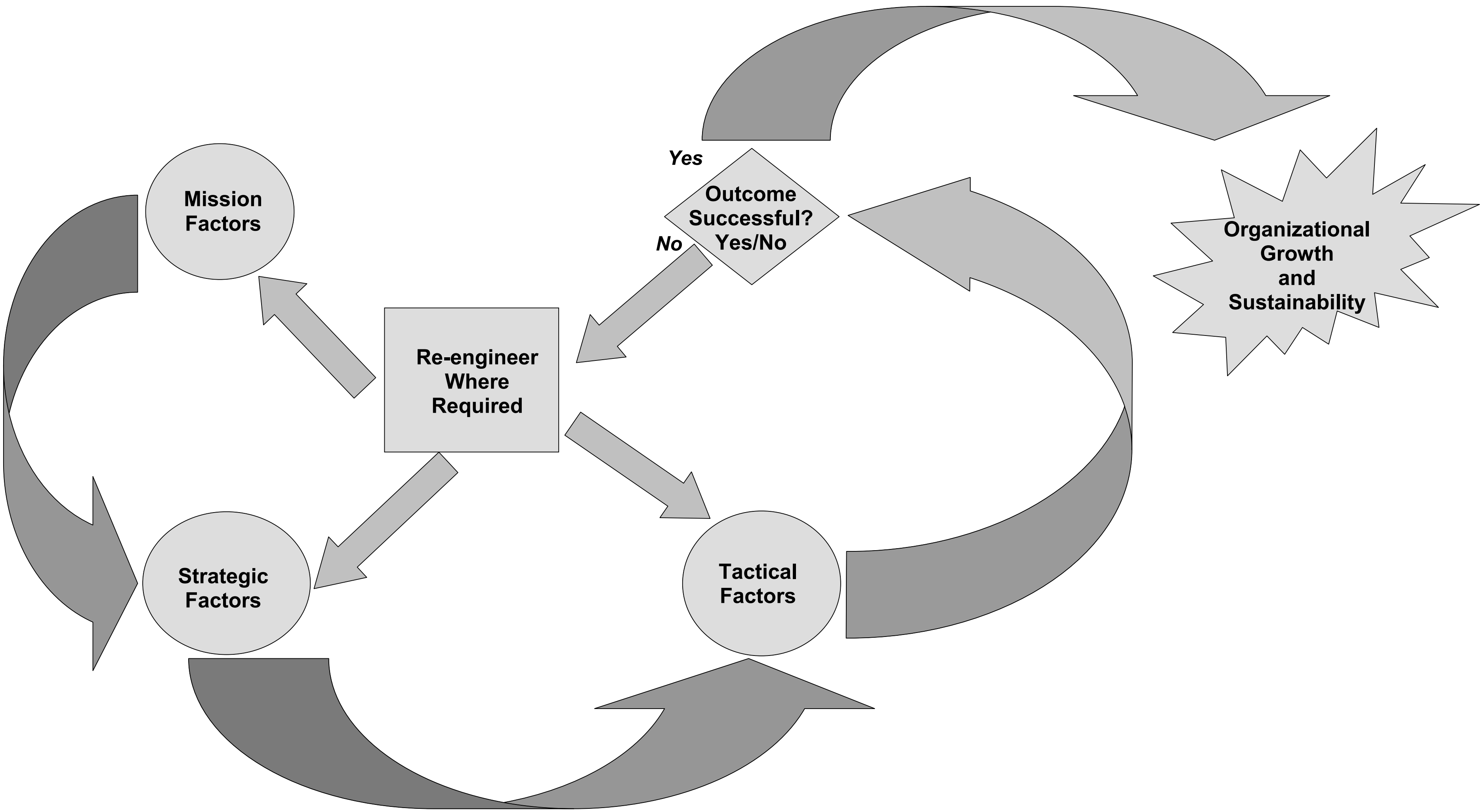
It is not only how a CDFI assesses its market, or what it decides to do in response, it is also how well it executes its strategy, and how agile it is in adapting that strategy to changing market conditions. CDFIs must both build strategies that match current strengths and limitations, and also work towards building capacities that increase the range and complexity of strategies that they can carry out in the future.

The case studies demonstrate institutions willing to learn from experience and make major changes based on a close read of operational results. This has led to a greater focus on finding profitable products in markets where this seemed highly unlikely, to staffing changes that better deploy skills or bring in needed expertise, and very careful attention to metrics. A high commitment to the discipline of achieving financial self-sufficiency, even when offering the most challenging product lines to the riskiest customers, has also led to dramatic efficiencies in some organizations, a consequent capacity to grow, and greater impact on the bottom line. This shows the importance of intangible factors in pushing an institution forward. Over and over, flexibility appears to be a core characteristic of successful organizations.

Figure 3: Executing the Sustainability Framework

Source: The Aspen Institute/InnovationLabs.

The following graphic illustrates the iterative process of executing the framework:



Findings: The Art of Attaining and Maintaining Sustainability

If sustainability is, in essence, an innovation process that balances mission and business acumen, what is being learned about how to achieve and keep a sustainable organization? The case studies that follow offer a broad and interesting look into the challenges, the solutions, and the progress of eight very different organizations. A close read of their experience—and a look at the broader experience of the field through the data analysis—suggests four fundamental realities regarding CDFI sustainability that are starting points for any consideration of strategy. These fundamentals are:

- *Sustainability is not a permanent state, but a condition that must be won and won over again* through hard work and attention to the three core elements of the framework—market, strategy, and execution. CDFIs need to constantly adapt their business models and respond as markets and other contextual factors change, and as they keep setting ever more ambitious goals for their organizations.

- Because markets are the bedrock on which strategy is built, *no models can be replicated in their totality.* Each CDFI must read and connect to its markets with a high degree of precision in order to survive. Impact and longevity depend on finding a role that embeds the institution as a critical player in its ecosystem, whether that is a local community, a city or metropolitan area, a network, industry, or a subsector of such. It involves not just creating niche products and services, but becoming a niche organization filling a critical gap in the marketplace. Given this, while models cannot be replicated in their totality, what can be replicated are practices that effective CDFIs are using, and the type of culture that prizes a disciplined focus on the bottom line.

- *It is not one thing; it is many things*. Those organizations that are best at attaining and maintaining sustainability are adept at managing many elements. It is the broad strategic vision; it is the capacity to develop effective alliances; it is seeking out efficiencies throughout operations; it is increasing revenues from better products and services. Each of the cases illustrates the combination of practices that organizations are pursuing to achieve their ends.

- *Subsidy and sustainability are not polar opposites*. All the cases illustrate organizations using subsidy in their operations—from the loan funds to the credit unions to the banks. And the data analysis documents the substantial contributed revenue that is part of the field. What counts is how it is used within the organization, how well subsidy reinforces a stronger market orientation, and how well the organization has positioned itself to survive if the subsidy declines or disappears.

Beyond these fundamental realities, the cases point to seven lessons that are part of a winning strategy.

Lesson 1: Be willing to abandon or adapt traditional business models.

The cases reinforce the accepted notion that traditional business models, characterized by such elements as high touch, intensive customization, one-by-one sales, and other such features, do not offer the easiest way forward. But this does not mean that CDFIs are adopting wholesale the components of more "transactional models." Rather, they are finding innovative ways to combine elements of each in a drive to balance the mission and business sides of their strategies. CDFIs can often be quite conflicted in making these decisions at times, to the detriment of organizational sustainability, but there are examples of how this can be done well:

- ShoreBank Enterprise Cascadia has transitioned from a business model emphasizing intensive and customized borrower services, and heavy grant dependence for initiatives to reach highly disadvantaged markets, to one that now emphasizes greater operating efficiencies achieved through strategic growth, technology-supported productivity, increased fee income, and more limited, targeted uses of subsidy. Instead of individualized customization of products, the model is built on what sounds like an oxymoron, "mass customization," the creation of product lines that meet very specific needs of large numbers of low-income customers, but which can achieve economies through standardization of the product and underwriting, marketing by and through multiple channels, and electronic application systems. Examples are used-vehicle loan guarantees for Hispanic immigrants and septic upgrade loans for rural families needing to comply with water quality standards. At the same time, the CDFI holds onto its core belief that lending, to be part of a community development change process, must be done in a context of community engagement. Therefore, it continues to place a high value on its non-lending work with customers and stakeholders, and invests considerable staff time in customer relationships.

- Community Trust Credit Union, whose market changed from food processing employees to very-low-income, predominantly unbanked Hispanics, has changed its business model, which now emphasizes growth through partnerships, increased efficiencies through shared technology, and the creation of a call center for improved customer service. At the same time, it insists on retaining high-quality, bilingual, bicultural staff and compensating them well because of its commitment to client market.

- University National Bank, with its consolidation with sister banks, has focused on standardizing credit procedures, outreach methods, and loan operations. It has moved audit, administration, accounting, and information technology to the holding company, reducing overall expenses and saving about $180,000 per year in personnel and occupancy expenses alone. Yet at the same time the bank continues to emphasize its community connections and mission through preserving the organizational cultures of each institution, which strengthens the bank's affinity to the customers of each institution. Franklin National, for example, operates in neighborhoods with a high concentration of African Americans. Park Midway serves a broad socio-economic range of customers including many immigrants. The organization is able to serve a broader and more diverse set of customers through the separate brands, personnel, and organizational cultures at each institution.

Table 7 lists the type of strategies that the case study institutions have applied to strengthen each of the business and mission sides of their models.

Table 7: Business and Mission Strategies of CDFIs

Source: The Aspen Institute.

On the business side	On the mission side
• Cross subsidization • Pricing effectively and competitively—cover costs, make money, price closer to alternatives in marketplace • Eliminate products and services that cannot be paid for • Reduce institutional leverage and risk • Employ efficiency measures including using networks to reduce costs and increase services • Sell services • Merge to create institutions that can stay alive and grow	• Maintain focus on and identity with the community • Emphasizing relationship with the customer • Continuing to seek comprehensive solutions, blending financial and nonfinancial, for greater impact • Engaging civic leaders in their mission to provide expertise, deliver resources (funding, below-market deposits), help establish priorities, connect to customers

Lesson 2: Confront the tensions implicit in scaling up.

Industry observers and practitioners have long recognized that scaling up is not, in and of itself, the solution to sustainability. In fact, scaling up can put stable organizations at risk if the products and services on offer require increasing amounts of subsidy. Interestingly, in the practitioner survey, a little over half (51.7 percent) were using subsidy to underwrite the operational expenses of lending.[20] At the same time, over two thirds (67.4 percent) indicated that they were looking at scaling up their loan volume as a strategy to increase sustainability. The two appear contradictory: unless the organizations can change the terms on offer, realize increasing returns to scale, or increase the amount of subsidy available for their core lending services, scaling up cannot succeed.

The cases also present CDFIs that connect scale to sustainability, and those that are attaining it are doing so because of strategies that address the inherent challenges. They are seeking economies of scale; they are identifying ways to create more profitable, yet still affordable, products for their target customers, they are willing to drop products and services that do not meet these characteristics; they are pursuing and retaining talent with the business experience that can help them manage growth.

Examples include:

- As described above, Shorebank Enterprise Cascadia's creation of "mass customized" loan products that can be delivered more cheaply through standardization. The CDFI has also implemented a sophisticated "Hub and Spoke" model that relies on technology to efficiently connect loan offices with the center operating unit.

[20] Organizations can define operating expenses differently. Some will include subsidized activities such as training and technical assistance in their operating budgets. Other organizations separate out these costs through various methods including, for example, putting them in an affiliated organization.

- Community Trust's loan products that feature a high net interest margin. In 2006, Community Trust's net interest margin was a full two points higher than its peer group, 5.96 percent compared to 3.96 percent.[21] As with all credit unions, Community Trust must be profitable in order to be sustainable. Community Trust's profitability has been driven by used-vehicle loans (average interest rate of 10.5 percent), which constitute over 75 percent of the portfolio. Less credit-worthy borrowers get a higher-cost first loan priced at 15.9 percent, but these loans tend to roll off quickly (average 18 months), and the members have access to a lower-cost second loan. Home mortgages are about 16 percent of the portfolio.

- Similarly, Justine Petersen's pricing strategy that increases the spread on microloans, mortgage retention loans, small-scale consumer, and credit repair loans to cover the full costs of the loan. Even with an increased spread, the organization can be competitive in a market where its customers have limited recourse beyond high-priced payday lenders. Its greatest challenge is raising more of its own capital: currently the institution depends on sources that come with restrictions.

- Legacy Bank's movement away from mission-focused products and services that required subsidy to newer products that still meet mission goals but can produce some profit. In doing this, the CDFI has had to acknowledge that it cannot undertake every cause that is mission-worthy. In a similar vein, SBEC has also shifted some of its portfolio from smaller loans to larger ones with greater profit potential.

The survey indicates that 46.1 percent of respondents are currently pursuing increased efficiencies in their pursuit of sustainability, while only 26.5 percent are introducing more profitable products and services. The microenterprise field presents a number of examples of how low pricing places an institution at risk.[22] At the same time, introducing more profitable products for less challenged market segments can lead to mission drift. Again, it becomes hard to envision scaling up as a solution to sustainability unless both efficiency and profitability strategies are also part of the mix.

Interestingly, in the CDFI data we observe higher rates of return from loan funds are most commonly achieved through greater efficiencies in lending, rather than pricing. Yields from portfolios are rarely greater than 10 percent. The reasons for this are not completely clear. To some extent, pricing decisions reflect the institution's assessment of its competitive market. However, a CDFI's pricing strategy may also reflect an institution's social orientation and unwillingness to apply a market perspective to its efforts. For example, within the microenterprise field, while a small set of lenders has distinguished itself by its willingness to price substantially, others have not followed this example.[23] The preference that practitioners place on scale and efficiency suggests that technology solutions present a more acceptable avenue for solving the sustainability puzzle. Again, the practitioner survey revealed that close to half of respondents raised subsidy to enhance technology and other infrastructure.

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[21] In 2007, Net Interest Margin was 5.62%; peer group data was not available.

[22] J. Jordan Pollinger, John Outhwaite, Hector Cordero-Guzmán (2007). The question of sustainability for microfinance institutions, *Journal of Small Business Management* 45 (1) , 23–41 doi:10.1111/j.1540-627X.2007.00196.x.

[23] Four of the five CDFI Loan Funds reporting the highest Effective Yields for Lending Portfolio in 2005 were microlenders. The yields ranged from 9.30 percent to 11.24 percent.

Lesson 3: Become more expansive in finding earned revenue opportunities.

The examples above highlight the willingness of some CDFIs to get reasonable financial returns on their products and services through a combination of increased efficiency, more-appropriate pricing, and increased scale. But the data shows how challenging it is to live on spread, especially on mission-focused lending. So it becomes important to pursue other earned revenue avenues.

Cross-subsidization is one of those avenues. About a quarter of survey respondents reported using this technique. Legacy Bancorp, among the cases, illustrates this approach with its lending to large top-tier corporations, mixing higher-quality credits, "Level 1's and 2's" in a five-point rating system, into its portfolio. Currently these large corporate loans account for less than 10 percent of Legacy's portfolio. Management is working to build up these loans to 10-15 percent of its portfolio by the end of 2008, both increasing return and improving asset quality as part of a comprehensive strategic plan.

Others have found additional opportunities:

- Community Trust's Spanish-language call center, designed to more efficiently serve its membership, is offering the service to other members of its credit union support organization (CUSO). At least one other credit union will go onto the system by summer 2008. Community Trust anticipates generating about $100,000 per year in fee income from this source.

- Justine Petersen, which offers mortgage brokering for its low-income clients, plans to market its services to more middle-income customers with a socially responsible mindset. Its real estate license allows it to locate and broker homes as well. It generates income from rental properties it has developed and it is leasing space in its new headquarters to several small businesses.

- In addition to developing, selling, and managing its properties with a high degree of competency, the Charlotte Mecklenburg Housing Partnership is now taking a small ownership position in mixed-income, mixed-use developments in which it is a part.

- SBEC has revamped its longstanding consulting services, which have never generated the returns it sought, by aligning the consulting more closely to the lending, especially on real estate projects, so that the consulting directly feeds the lending pipeline and moves those projects forward. New Markets Tax Credits and other off-balance sheet lending are other more recent sources of fee income. Finally, SBEC is offering its lending competencies and operating platform on a fee basis to other, smaller non-bank lenders. It has a loan servicing contract (collections, cash management) in place with the Lummi Indian Nation revolving loan fund. It also offers full loan fund management services to smaller loan funds in Washington and Oregon that may lack staffing and systems. SBEC will grow this line of business over the next several years.

Lesson 4: Make strategic partnerships an essential component of the business model.

As they seek to scale and increase sustainability, many of the cases demonstrate the importance of moving beyond vertical integration in order to do things more efficiently to expand services and generate more resources. For example, while technology is ultimately designed to reduce transaction costs, achieve greater scale, increase customer service, and support competitive products and services, developing these technologies is costly. The cases illustrate examples where individual CDFIs have made these investments, but few organizations can single-handedly access the funds to create all the technologies they need. This calls for "renting" infrastructure, creating collaborative platforms, or finding new ways to deliver products and services through technology with dramatically lower costs. For example, the Community Trust Credit Union, along with five other credit unions[24] joined a CUSO that operates a shared, central core data processing system. The CUSO enables the Community Trust to have technology capabilities they would never be able to otherwise afford. Shared services include core processing, the lending platform, home banking, electronic loan application, audio response, cold storage, imaging, etc. Community Trust estimates that the CUSO saves it between $70,000 and $140,000 per year compared to purchasing equivalent services through a correspondent relationship.

Strategic partnerships can provide other benefits:

- Legacy Bancorp, Inc., which focuses on lending to first-time small business owners that specialize in rehabbing distressed residential properties in disadvantaged neighborhoods across Milwaukee, belongs to the Certificate of Deposit Account Registry Service (CDARS) network. This enables it to insure deposits much larger than the $100,000 FDIC insurance limit. These are deposits from large corporations and foundations, the largest of which is $3.5 million. The corporations and foundations may be socially-motivated depositors, but they are rate-sensitive and demand market returns. As part of a strategic plan, the bank is pursuing a campaign to grow deposits—core and non-core—by engaging an outside marketing firm to create a brand and a brand identity.

- Justine Petersen is a founding member of Credit Builders Alliance, a nonprofit that helps loan funds and other asset-building organizations report client financial behavior to the major credit bureaus, and offer other credit-building services.

- The Charlotte Mecklenburg Housing Partnership uses national networks to improve its liquidity (it sells it mortgages on NeighborWorks' secondary mortgage market) and lower the costs of certain products (it purchases insurance as a group through the Housing Partnership Network). Importantly, CMHP is better able to serve its customers as a result of its participation with local networks to provide comprehensive, complementary services in the communities.

- Generations Community Development Credit Union, itself the result of the merger and/or acquisition of seven small community development credit unions, uses the North Carolina Minority Support Center for its management, staff, accounting and data processing.

Lesson 5: Get more effective at getting subsidy.

All of the case study organizations report using subsidy in one form or another, and most expect to continue to need some form of subsidy for the foreseeable future. In the practitioner survey, and as

[24] The other credit unions are: Allied Trades Credit Union (Stockton), Tracy Federal Credit Union (Tracy), Silverado Federal Credit Union (Angwin), Community Federal Credit Union (Santa Rosa), and Modesto First Credit Union (Modesto).

reported above, only 17.8 percent defined sustainability as achieving 100 percent cost recovery through revenues from customers, yet just under 60 percent (147 of 247 respondents) indicated that achieving 100 percent cost recovery was a goal or requirement of their CDFI. This apparently contradictory data might be due to a more ample vision of how cost recovery can be achieved apart from customer fees. Among those that stated that total financial self-sufficiency was not a goal, the majority—56.6 percent—were seeking to achieve at least 50 percent cost recovery. A third of the group (35.5 percent) indicated that they were seeking to achieve between 51 percent and 75 percent cost recovery. Only 21.1 percent were seeking to achieve more. This suggests that mastering the art of fundraising or subsidy development remains an important skill for CDFIs. And as competition has increased for the more traditional sources accessed by CDFIs, such as the CDFI Fund and national foundations, skill at engaging new sources is important. These include not only traditional philanthropy but also other tools and resources such as socially conscious investors, secondary markets, below-market deposits, etc., and expertise.

The case studies include organizations that have paid considerable attention to the subsidy business, and in particular, in developing local civic support, as did Charlotte Mecklenburg Housing Partnership. They also include cases like Justine Petersen, whose self-reliant focus on first earning a living through brokerage fees and other types of fees, and then on competitive, mostly Federal grants and contracts, has enabled it to sustain itself up till now. However, its growth goals have demonstrated the need for greater and more flexible loan capital, and for ongoing subsidy for targeted services. This case has demonstrated that lack of attention to traditional fundraising has its downsides. The organization's new strategic plan puts strong emphasis on developing this side of its strategy. Shorebank Enterprise Cascadia (SBEC) also believes in the importance of subsidy to support the work of changing markets. On the other hand, SBEC does want its core lending operation to be 100 percent self-sufficient, and expects to reach that goal for 2008. If operating subsidy were to go away at some point, investors should have confidence that the basic lending and portfolio management functions will continue.

The cases illustrate several approaches to getting subsidies:

- Justine Petersen expects to take the hard but proven route of developing greater local support through board development, re-branding and a public relations campaign, and a development plan focused first on major civic donors in their community.
- The Charlotte Mecklenburg Housing Partnership has already ploughed this ground effectively, paying close attention to meeting performance goals established with its principal funder, the City of Charlotte, and to building close communications. It has also successfully tapped corporate leadership on its board, whose members contribute money, complementary services, and their own expertise and connections. The board has become a desirable place for executives and developers to improve their community standing.
- University Bank attracts non-core deposits (brokered deposits, certificates of deposit [CDs] greater than $100,000, and borrowed funds). These funds accounted for 34 percent of assets in 2007, well in excess of the ratio at conventional community banks, and about 10 percentage points above the average across CDFI banks. While these deposits can become a relatively expensive source of financing if they are obtained through a brokered market, University pays between ¼ percent to ½ percent below market on its brokered CDs. One of its main goals for 2008 is to launch a five-year, $75 million mission-related interest-bearing deposit campaign. The plan is to attract deposits through the wholesale socially responsible investment (SRI) industry and through foundations. University has already realized success in marketing its CDs

via a (wholesale) Schwab platform through socially responsible brokers. University has collected about $13.5 million in deposits through this venue thus far. In addition to this platform, University is also exploring working directly with SRI-sensitive financial advisors.
- Generations' management by the North Carolina Minority Support Center has offered it access to subsidy from a regular appropriation of the state legislature.

Lesson 6: Get smart about the use of subsidy.

As indicated above, just over half of the survey respondents (51.7 percent) reported using subsidy to underwrite the operational expenses of lending. As a long-term strategy, this places the organization at great risk. If the civic market—from which subsidy is tapped—changes, then the organization has little choice but to cut back on essential services. Thinking more "smartly" about the use of subsidy, however, can place the institution in a greater position of strength. The cases illustrate some of the ways that this can work:

- Use lowest-cost capital (CRA investments): Clearinghouse CDFI.
- Increase equity: University Bank, Legacy Bancorp.
- Create infrastructure: Shorebank Enterprise Cascadia's Hub and Spokes model, with a technology platform that supports information technology, on-line applications and portfolio management, finance and accounting, operations, human resources, and compliance.
- Finance the start-up costs for new branches: Community Trust's East Palo Alto branch is supported by three large credit unions (Stanford Credit Union, Addison Avenue Credit Union, and Patelco Credit Union), with three-year operating support of $150,000/year plus $1.2 million of 0 percent interest deposits. (The business plan calls for the branch to be self-sufficient after three years.)
- Innovation, program design: Clearinghouse CDFI, University Bank, Legacy Bancorp.

In all these cases, the subsidy increases the institution's strength, and allows it to develop capacities that can lead to greater revenue generation in the future for core services. Almost half of the survey respondents reported using subsidy in these ways as well: 47.4 percent reported using it for needed technology, information systems, and other infrastructure, and 45.9 percent reported using it to expand to new geographic and demographic markets.[25]

One of the biggest challenges for CDFIs remains covering the costs of value-added training and technical assistance, and other development services these organizations offer. Fully 64.2 percent of the survey respondents reported using subsidy for these purposes. And at least three of the case study organizations, Shorebank Enterprise Cascadia, Charlotte Mecklenburg Housing Partnership, and Justine Petersen, appear to have set separate financing goals for their loan products (targeted at full cost recovery) and the developmental products or services (which require subsidy). How one approaches the use of subsidy influences the capacities that the organization needs to cultivate. The need for ongoing subsidy presumes that organizations will be adept in raising funds in the civic market, and not just adept in the public marketplace. In this respect, it is worth noting that 18 percent of survey respondents selected "cultivating a committed donor base" as one of their key sustainability strategies.

[25] Smaller percents also reported other uses that could be characterized as smarter uses of subsidy: loan loss reserves (39.7%). capitalization (3.8%), loan guarantees (11.5%), product development and testing (23.4%), and research (19.6%).

Lesson 7: Pay attention to the fundamentals.

The case studies illustrate the importance of execution as well as strategic thinking when it comes to sustainability. Those that practice business fundamentals will have greater success in maintaining sustainability. Such business fundamentals include analyzing balance sheet and income statements well; managing their margins, expenses, and investment portfolio and liquidity; and making sharp decisions about what to keep in-house and what to out-source, and which product lines to invest in and which to cut, based on the impact of these decisions on their financials. This may be obvious, but it cannot be ignored.

Equally, the cases suggest the critical importance of such intangible qualities as flexibility and the agility to respond to changes in the marketplace. The implication of this is, as in most things in life, the importance of leadership, and the importance of highly skilled staff who can monitor and guide the institution with strong business skills matched with high social conscience. Two of the cases show the importance of staffing decisions to these organizations' strategy. In the case of Legacy, hard won experience has led it to the decision to recruit only bankers to its management team. At the same time, it has introduced a system of individual scorecards that compare goals and results vis-à-vis profitability, soundness of the bank, efficiencies, best practices, and personal development. The scorecard has allowed the bank to create a more objective incentives policy. Raises and eligibility for stock options are based on these performance criteria.

In the case of Shorebank Enterprise Cascadia, its transition from a smaller, more family-like organization into a larger institution has led to staff turnover, as valued team members competent in their roles for smaller organizations could not meet the demands placed upon them in the transformed organization. The organization invested heavily in a change management process for 18 months to support the inculcation of a new organizational culture.

Skilled staff are not only needed at the top, but also within operations, and the cases have also pointed to examples of hard decisions that organizations have made to build the right staff as well as to keep the right staff. Community Trust, for example, accepts higher personnel costs to maintain its bilingual, bicultural staff, even though it hurts its financial position now. Shorebank Enterprise Cascadia has found that its success in managing its expansion model has depended on shifting its field staffing from community development generalists to more-seasoned lenders. At the same time, without strong community development skills, the organization cannot well execute its place based community development strategies. This has involved a slow learning process.

Other cases that exemplify the benefits of strong execution are Charlotte Mecklenburg Housing Partnership, which has grown through what a former board chair describes as its careful attention and step-by-step path to building the "capabilities, racial diversity and product mix to work in any neighborhood in the city"; and Clearinghouse, which has maintained its key executive staff for nine years, and which has paid careful attention to new hires among its small staff. The quality of this staff has made Clearinghouse strong in identifying unmet low- and moderate-income credit needs and trends affecting its target market, and in quickly responding to opportunities.

Table 8 places the seven lessons on a grid. One axis shows the strength of mission to an organization's sustainability, while the other shows the strength of the business strategy. CDFIs that are not strong in implementing either mission or business strategies are usually struggling for survival. For them, paying attention to the fundamentals is good first step. CDFIs that are strong in implementing both mission and business strategies get there because they have largely been successful at implementing most of the seven lessons if not all of them, and continue to do so effectively. We feel that increased attention to the seven lessons will have the most benefit to those programs in the middle: those that are moderately good at implementing one side of the equation (business or mission), but which could significantly improve their sustainability with increased attention to both sides of their agenda. Which of the lessons are most important to CDFIs in this group depends upon the unique circumstances of each individual CDFI.

Table 8: Application of Sustainability Lessons

Source: The Aspen Institute.

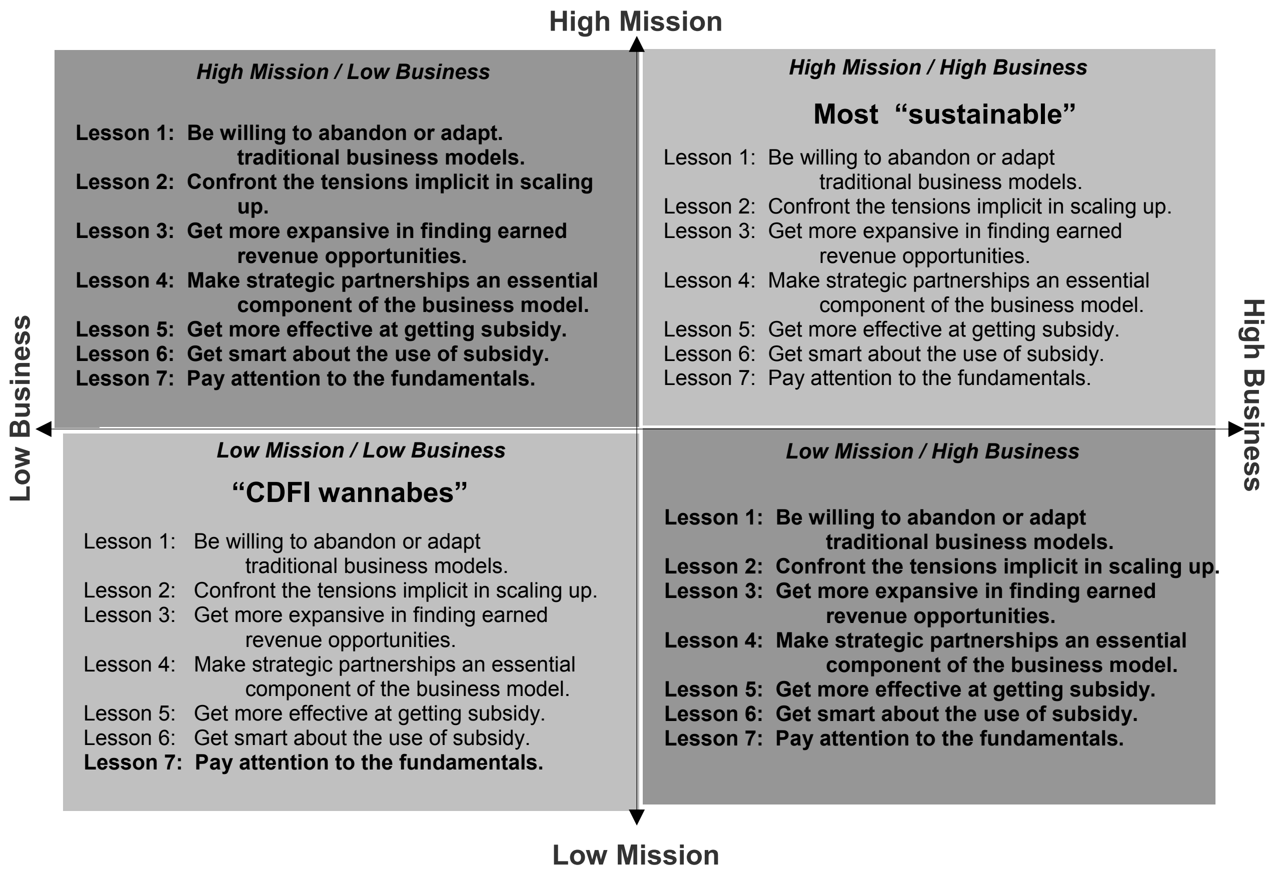


Table 9: Exemplary Application of Lessons by Case Study Organizations

Source: The Aspen Institute.

	Strategies Employed By Organization						
Case Study	Be willing to abandon or adapt traditional business models	Confront the tensions implicit in scaling up	Get more expansive in finding earned revenue opportunities	Make strategic partnerships an essential component of the business model	Be effective at getting subsidy	Get smart about the use of subsidy	Pay attention to the fundamentals
University Bank	X	X	X		X	X	X
Legacy Bancorp	X	X	X	X		X	X
Shore Bank Enterprise Cascadia	X	X	X	X	X	X	X
Clearinghouse CDFI	X		X	X	X	X	X
Community Trust Credit Union	X	X	X	X	X	X	X
Generations Community Development Credit Union	X			X	X		X
Charlotte Mecklenburg Housing Partnership	X		X	X	X	X	X
Justine Petersen	X	X	X	X	X	X	X

Conclusions and Recommendations

This paper portrays both the challenge of sustainability and the potential for it embedded in the experience of an array of CDFIs. A number of recommendations for CDFIs, and those investing in CDFIs, are suggested:

- While the field has grown overall, CDFIs have had to constantly innovate, and adapt their business model to changes in private and civic markets. Each CDFI institution type has strengths and weaknesses that affect an individual institution's ability to grow and sustain itself over time, and which demand continuing innovation and increasing sophistication. CDFIs need to have the flexibility and resources that will allow them to adapt to changes in the market.
- Some CDFIs have made notable strides in accessing new forms of earned income, and of increasing efficiencies, both of which allow the organizations to operate at greater levels of self sufficiency. This private-market orientation has benefitted the field in many ways, encouraging greater efficiencies and customer responsiveness. Public and charitable funding should facilitate increased competitiveness in the private market. But CDFIs need to carefully balance opportunities to earn income with mission-oriented goals.
- All CDFIs use subsidy to fulfill their mission, and this is unlikely to change. Some CDFIs have been very innovative in using subsidies where they are needed most, and in accessing new forms of subsidy. CDFIs will need to continue to innovate, and this will require continued investment. There is considerable opportunity for this work to be done on an industry wide level, where networks and shared platforms can help individual CDFIs operate more efficiently and with greater impact, and a wider variety of subsidy vehicles could be created to serve the field.
- Some CDFIs are increasingly using their knowledge of distressed markets to take a leadership role in their communities. This civic leadership plays an important role in engaging additional resources to address the needs of distressed communities, as well as promoting a greater understanding of the issues and accomplishments occurring in these areas. Developing and leveraging intellectual capital will likely be an increasingly important component of CDFI sustainability going forward.

The cases demonstrate what some of these newer business models might look like. They also convey the challenges some institutions have faced as they have worked to transform themselves. Some of these challenges are clearly internal and relate to the natural tendency to cling to older definitions of self or ways of doing things, or to the very real fact that mission demands development services that even the most efficient business models cannot cover. But others are external and relate to the funding environment in which many CDFIs operate, where the opportunities to generate equity are limited—and yet, where equity has the power to move an institution beyond survival to a position where innovation and growth are possible. While this paper has identified models and principles that we hope can provoke strategic reflection and action among CDFIs poised for transformational change, funders might also see ways that their support can increase that "smarter subsidy" upon which transformation can happen.

The Aspen Institute Economic Opportunities Program dedicated considerable time to the issue of scale, culminating in the 2004 publication of "New Pathways to Scale for Community Development Finance." EOP's future focus will be on the role of subsidy. This document provides a framework for understanding sustainability in the CDFI field, which is seen as a series of decisions and implementing practices made in response to changes in the environment and markets supporting them.

APPENDIX A: Quantitative Analysis

Summary of Quantitative Analysis Changes in the field 2000 – 2006

Data Sources

The quantitative data analyzed in this report are drawn from three data sets. Most of the statistics are drawn from the CDFI Data Project (CDP), an industry collaborative that produces annual statistics about community development financial institutions (CDFIs).[26] CDP data were available for the years 2000 – 2005. The number and assets of the institution types contributing data in 2005 is shown in Table A.1. Additional data were available for 2006, but fewer data points were collected in that year, so not all data points were updated. The organizations represented in the CDP database are certified CDFIs and CDFI-like organizations.[27]

Table A.1: CDFIs Reporting CDP Data in 2005

Source: CDP.

Institution Type	Number	Assets
Banks	51	$11,105,541,165
Credit Unions	280	$5,688,162,756
Loan Funds	150	$3,813,059,320
Venture Funds	15	$175,270,510
Total	496	$20,782,033,751

Longitudinal data from the CDP on total assets were available for the period from 2001 through 2006 for 250 CDFIs (3 VC funds, 80 Loan funds, 160 credit unions, and 7 banks). Longitudinal data were available for other data points as well, but the number of CDFIs with valid data in all years will vary by data point.

The study also draws data from the CDFI Fund's Community Investment Impact System (CIIS) database, which has institution-level data collected from CDFI Fund grantees between 2003 and 2005. The number of institutions reporting is shown in Table A.2. All of the organizations reporting to the CDFI Fund are Certified CDFIs.

[26] Organizations participating in the CDFI Data Project (CDP) include Opportunity Finance Network, Community Development Venture Capital Alliance, Association for Enterprise Opportunity, Coalition of Community Development Finance Institutions, CFED, National Community Investment Fund, National Federation of Community Development Credit Unions, and The Aspen Institute.

[27] A CDFI-like organization is a specialized financial institution with a mission to serve low-income individuals and communities. These organizations fill a critical gap between the financial services needed in low-income communities and those made available from mainstream financial institutions.

Table A.2: CDFIs Reporting CIIS Institutional-Level Data in 2005

Source: CIIS.

Institution Type	2003	2004	2005
Banks	8	7	8
Credit Unions	28	29	22
Loan Funds	178	194	139
Venture Funds	9	6	4
Total	223	236	173

Longitudinal asset information across all three years is available in the CIIS database for 86 CDFIs (6 Banks, 8 Credit Unions, 71 Loan Funds, and 1 VC Fund).

Data are also drawn from The Aspen Institute's MicroTest database on microenterprise programs in the United States. Data are available from 1998 through 2006. In 2006, 54 microenterprise development programs provided data, with 38 programs reporting disbursements of over $13 million in microloans.

Indicators of sustainability

A number of quantitative measures were studied as potential indicators of sustainability. These included measures of growth (assets, expenses, loans outstanding) and the sources of revenue (earned and contributed) and capital (equity, debt, and deposits/member shares). The analysis also included additional indicators that described more-qualitative aspects of sustainability, such as portfolio quality (delinquencies, write-offs).

Trends in CDFI self-sufficiency, or the portion of CDFI expenses that could be covered through earned income, were studied. This analysis also looked at the changes in the relative concentration of assets among a limited number and types of CDFIs, and the trends of CDFI closures over this period.

The definition of a CDFI includes various institution types. In many cases the analysis distinguishes among these institution types. Please note that through much of the analysis venture funds have not been included. Their unique charter makes analysis for sustainability much more complex.

The field has grown and remained financially healthy

The CDFI field experienced significant growth in the period from 2001 through 2005 among those CDFIs that reported data over that period. From the CDP, longitudinal data is available on 169 CDFIs. Table A-3 shows statistics on changes in selected indicators. Collectively, assets for this group increased by 55 percent. Growth was fairly ubiquitous, with 88 percent of CDFIs reporting an increase in assets.

Table A.3: Changes in Assets, Contributions, and Earned Income 2001 – 2005

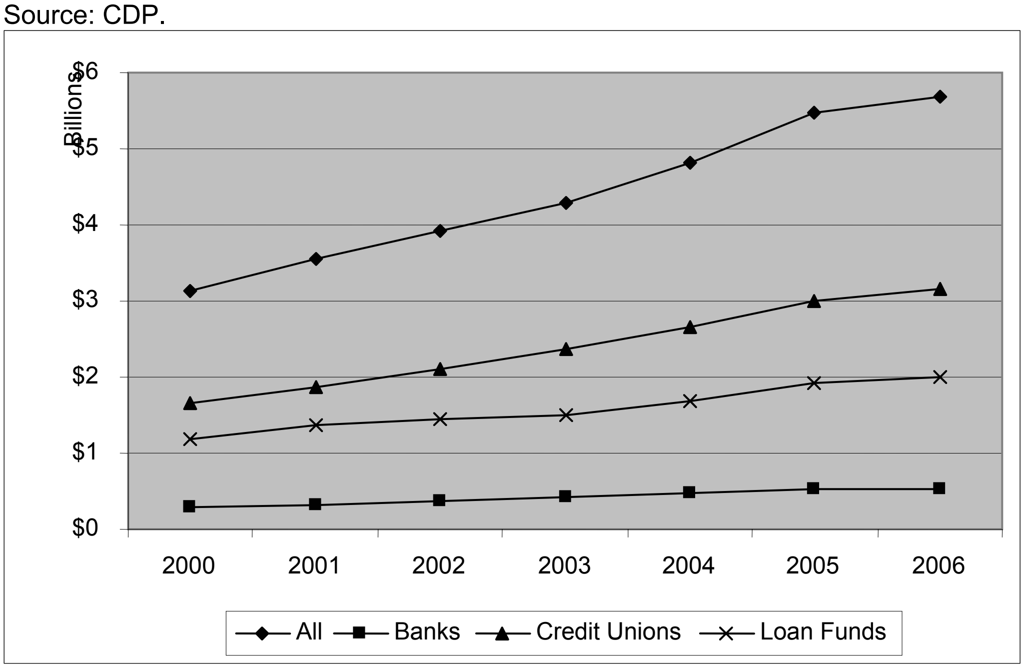
Source: CDP.

	Change Assets	Percent	Change Contributions[28]	Percent	Change Earned Income	Percent	N
Banks	$832,900,262	50%	NA		$24,040,911	19%	13
Credit Unions	$508,396,273	87%	$535,858	24%	$24,485,001	44%	54
Loan Funds	$983,318,315	53%	$25,687,955	30%	$56,947,308	38%	94
Venture Funds	$8,328,059	8%	$1,037,589	31%	($403,421)	-7%	8
Total	$2,332,942,909	55%	$27,261,402	30%	$105,069,799	31%	169

Chart A.1 below shows the change in assets year-by-year for the period from 2000 through 2006. The analysis is based upon 207 CDFIs with information on assets for all seven years.

Chart A.1: Change in Assets 2000 – 2006 by Institution Type

Source: CDP.



Net assets increased by $454 million, a 44 percent increase over 2001 – 2006, as shown in Table A.4. 88 percent of loan funds, 80 percent of credit unions, and 67 percent of banks reported an increase in net assets over this period.

[28] The term "contributions" includes Unrestricted Operating Grants and Donations and/or Temporarily Restricted Grants released from restriction during the latest fiscal year. The definition also includes in-kind contributions. It does *not* include equity grants for capital, temporarily restricted grants that are intended for future operating periods, or grants that will be passed through to other organizations.

Table A.4: Changes in Net Assets 2001 – 2006

Source: CDP.

	2001	2006	Change, $	Change, %	N
Loan Funds	$630,667,133	$837,682,878	$207,015,745	33%	97
Credit Unions	$241,306,062	$417,329,553	$176,023,491	73%	174
Banks	$170,339,164	$241,621,000	$71,281,836	42%	15
All	$1,042,312,359	$1,496,633,431	$454,321,072	44%	286

Growth has been fueled by increases in contributions, earned income, and deposits

Contributions are gifts, usually from charitable or public institutions, which help CDFIs fulfill their charitable missions. All CDFIs receive some form of subsidies, ranging from contributions to below-market funds. With new CDFIs coming on line, and many CDFIs growing, one would expect more competition for contributions. In addition, because the overall amount of funds available for contributions is considerably smaller than the funds that can be potentially earned in the consumer market, strategies designed to achieve substantial growth in the field would need to grow earned income at a rate consistent with, or preferably faster than, the growth of contributions.

Contributions increased by 30 percent and earned income increased by 31 percent between 2001 and 2005, while deposits and member shares increased by 58 percent, as shown in Table A.5.

Table A.5: Change in Lending and Deposits 2001 – 2005

Source: CDP.

	Change Financing Outstanding	Percent	Change CU Member Share and Bank Deposits	Percent	N
Banks	$645,302,769	71%	$688,076,293	49%	13
Credit Unions	$313,841,362	79%	$402,496,622	84%	54
Loan Funds	$801,604,136	68%	NA	NA	94
Venture Funds	$17,326,856	29%	NA	NA	8
Total	$1,778,075,123	70%	$1,090,572,915	58%	169

The source of contributions changed during this period. Using the CIIS dataset it is possible to see in greater detail some of the shifts in the period between 2003 and 2005. The information is based on 102 CDFIs, and is shown in Table A.6. Overall, contributions increased by 37 percent during this period. Government sources decreased considerably, reducing their contributions by $32 million. This decrease was made up in expanded philanthropic support, increased bank contributions, and largely by an increase in “other” contributions that could not be otherwise classified.

Table A.6: Sources of Contributions 2003 and 2005

Source: CIIS.

	2003	2005	Change
Bank	$3,591,401	$6,046,791	68%
Corporate	$36,408,303	$31,089,814	-15%
Government	$79,020,045	$46,568,615	-41%
Philanthropy	$47,418,996	$58,944,466	24%
Individuals	$1,952,485	$1,342,482	-31%
Other	$6,206,192	$95,215,820	1434%
Internal	$231,400	$107,000	-54%
Total	$174,828,822	$239,314,988	37%

The experience of CDFIs with respect to contributions has not been uniform. Changes with respect to larger or smaller CDFIs are shown in the table below. Table A.7 is based upon a year-by-year comparison of contributions into 67 loan funds that had data for all six years, divided into four quartiles, based on the amount of contributed income in 2000, using CDP data.[29] From 2000 through 2005, the amount of contributed income increased by 63 percent for this group. Note, however, that this growth was not uniform across years, and that contributions have virtually stagnated for all but the smallest CDFIs since the rather significant growth spurt in 2002. Proportionally, the smallest quartile grew the most over this period.

Table A.7: Changes in Contributions to Loan Funds 2000 - 2005

Source: CDP Data.

	2000	2001	2002	2003	2004	2005
First Quartile	$958,844	$1,733,735	$3,414,403	$2,968,171	$4,232,184	$5,537,928
Second Quartile	$6,833,498	$10,350,760	$10,293,366	$10,403,328	$10,000,946	$10,957,862
Third Quartile	$13,467,178	$16,025,824	$14,994,971	$19,901,926	$14,370,177	$18,433,684
Fourth Quartile	$37,746,889	$39,471,682	$66,314,507	$54,087,527	$49,653,423	$60,978,197
All	$59,006,409	$67,582,001	$95,017,247	$87,360,952	$78,256,730	$95,907,671
Change over previous year		15%	41%	-8%	-10%	23%

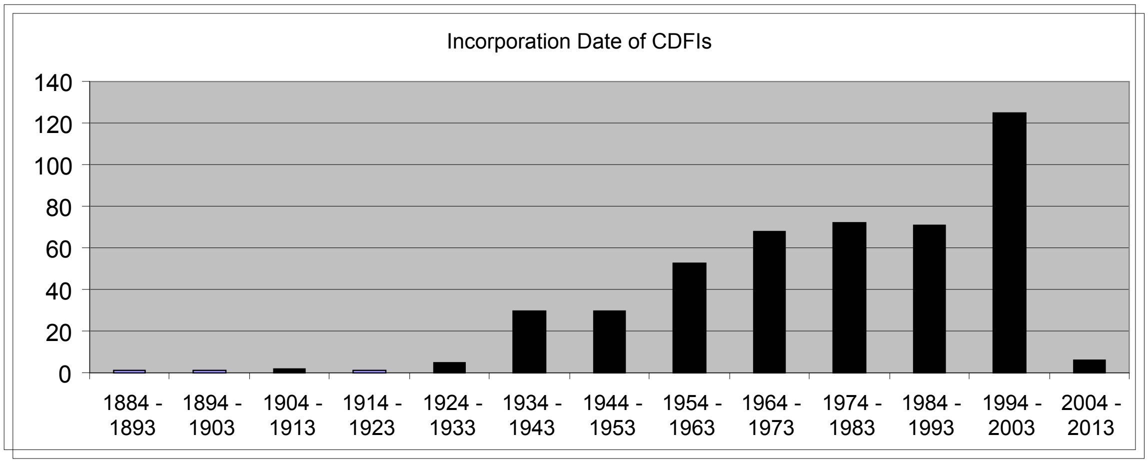
Closures are relatively rare, although rates vary by institution type[30]

The CDFIs in the CDP data set started lending as far back as the nineteenth century, and as recently as 2005. The incorporation dates of CDFIs in the CDP dataset are shown in Chart A.2. Banks tended to be among the oldest institutions. Credit unions started appearing in the 1930s and were continuing to come on line in 2005. Loan funds are a relatively recent phenomenon, with most beginning lending operations in the 1980s and 1990s. In the twenty-first century the pace of new institutions starting lending operations has slowed considerably in relation to the five preceding decades.

[29] CDP Data,
[30] For this analysis we are indebted to Jon Schwartz of Opportunity Finance Network and Greg Gamerer at the Federation of Community Development Credit Unions, both of whom provided critical information and insights.

Chart A.2: Incorporation Date of CDFIs in CDP Dataset

Source: CDP.



Closure is perhaps one of the more definitive facets of sustainability. Working from the sample of CDFIs that submitted data in 2000, we attempted to get an understanding of CDFI survival.[31] The results of that work are shown in Table A.8. Of the 342 CDFIs that reported to the CDP in 2000, 14 percent were no longer in business in 2007. Most (83 percent) of the organizations that closed were credit unions, and the majority (74 percent) of credit union closures were the result of mergers.

Table A.8: CDFI Closures 2000 – 2007

Source: See Text.

	Total	Closed	Change
Loan Funds	137	5	-4%
Credit Unions	177	40	-23%
Banks	9	0	0%
Venture Funds	19	3	-16%
	342	48	-14%

Nearly one-quarter of the credit unions in business in 2000 have since closed their doors, with most merging into other organizations. Okagaki and Tansey concluded that the financially healthiest CDCUs are the smallest (less than $1 million in assets) and the largest (over $10 million in assets)[32]. Larger credit unions are necessary to afford professional-quality management, conform to government regulatory reporting requirements, and offer a sufficiently broad set of competitive

[31] Starting with a list of the CDFI loan funds, credit unions, and banks that submitted data to the CDP in 2000, representatives of the trade associations (Opportunity Finance Network (OFN) and the National Federation of Community Development Credit Unions (NFCDCU) , we checked to see if the CDFIs were still in business. In some cases the CDFIs continued to report to CDP and federal regulators. In others, disposition was known because of a general monitoring of the field (e.g. newspaper articles, merger notices). If, barring any other formal notification, a CDFI had no public presence (no website or other public notification that it was available for business) and/or did not respond to correspondence, the CDFI was presumed closed.
[32] Alan Okagaki and Charles D. Tansey, December 2001.

product and services. Currently a little more than one-quarter of the community development credit unions studied meets or exceeds this $10 million asset standard.

Assets remain unevenly distributed

Assets continued to be heavily concentrated in a limited number of CDFIs, and that changed only slightly between 2001 and 2006. In 2001, the top 10 percent of CDFI asset holders held 72 percent of all assets held by 249 CDFIs reporting longitudinal data[33]. By 2006, while the amount of assets held by the largest 10 percent increased from $3.5 billion to $5.2 billion, the share held by this top 10 percent decreased slightly to 69 percent. Nineteen of the 25 CDFIs in the top 10 percent in 2001 remained in the top 10 percent in 2006. Those moving out or into that top 10 percent list rarely moved far.

We looked at the changes in assets under management between 2001 and 2006; these appear in Table A.9. Because banks tend to be much larger institutions than loan funds or credit unions, banks rarely moved out of the top 10 percent, even if they experienced significant (in excess of $20 million) declines in assets. Credit unions saw assets further concentrated among the top 10 percent of credit unions, with their share increasing from 70 percent in 2001 to 75 percent in 2006. Loan funds experienced a dispersal of assets, with the top 10 percent of loan funds seeing their share of assets decreasing from 55 percent to 49 percent.

Table A.9: Credit Unions and Loan Funds: Assets Under Management 2001 and 2006

Source: CDP.

Credit Unions: Assets Under Management

	2001	Share	2006	Share
Top 10%	$1,598,720,065	70%	$2,983,660,893	75%
Remainder	$673,610,699	30%	$973,383,438	25%
All	$2,272,330,764	100%	$3,957,044,331	100%

Loan Funds: Assets Under Management

	2001	Share	2006	Share
Top 10%	$795,200,818	55%	$1,049,481,595	49%
Remainder	$647,016,604	45%	$1,108,147,884	51%
All	$1,442,217,422	100%	$2,157,628,679	100%

Distinguishing characteristics and trends by institution type

While all CDFIs share a common mission to meet the financial service needs of low-income individuals and communities, they do so with very different institutional types, principal lines of business, and business models. These variations have significant influence on organizational size, growth, and sustainability, as shown in Table A.10.

[33] The statistics in this section, based upon only those CDFIs with longitudinal information in all six years from 2001 to 2006, will vary somewhat from the snapshot figures quoted in the previous section.

Table A.10: Selected Characteristics of CDFI Institution Types

Source: CDP.

Institution Type [34]	Banks, Thrifts	Credit Unions	Loan Funds	Venture Funds
Typical Organization Form	For-Profit	Nonprofit Co-op	Nonprofit	For- or Nonprofit
Assets: Median	$121,587,000	$2,388,130	$7,673,880	$6,728,735
Assets: Minimum	$21,086,000	$23,252	$180,338	$352,407
Assets: Maximum	$1,681,045,000	$1,111,803,553	$957,552,593	$46,924,837
Share of Assets Held by Largest 10% of Institutions in Type	44%	77%	65%	39%
Principal Source of Capital	Deposits	Deposits	Borrowed Funds	Equity
Regulated?	Yes	Yes	No	No
Median Equity/Total Assets	NA	10%	27%	120%
Median Earned Income Index[35]	100%	100%	57%	100%

The banks are consistently among the largest CDFIs. The business model of these institutions requires a larger minimum size to efficiently and effectively deliver services. Loan funds and credit unions vary considerably in asset size, suggesting a more flexible business model and a lower barrier for entry. Most of the credit unions and loan funds are relatively small, but the majority of assets are held by the largest 10 percent of the institution type. All three institution types have at least one CDFI with assets of nearly $1 billion.

Each institution type has different levels of risk based upon their sources for capital and operating revenues. The community development banks and credit unions both raise funds from individual depositors, a practice that requires oversight of various state and federal regulators, including those insuring those deposits. The regulated institutions are held to rigorous financial performance and risk standards. Attracting depositors also requires a competitive offer in the marketplace. From a sustainability perspective, the ability to provide competitive and needed financial services in an environment of universal ATM access, ubiquitous credit cards, and subprime lending products remains a challenge.

These depository institutions will also raise capital from other sources, including borrowed funds and non-depository investors. In the case of non-depository investors, banks and credit unions must compete with a bottom-line agenda of financial return and community benefit—essentially selling a civic and a financial gain for the investors.

Loan funds are typically, but not exclusively, nonprofit organizations. With their charitable missions they are able to raise capital and operating support from public and philanthropic institutions. Because they do not raise funds from depositors or investors, these public and philanthropic investments are crucial for building organizational equity needed for growth. Loan

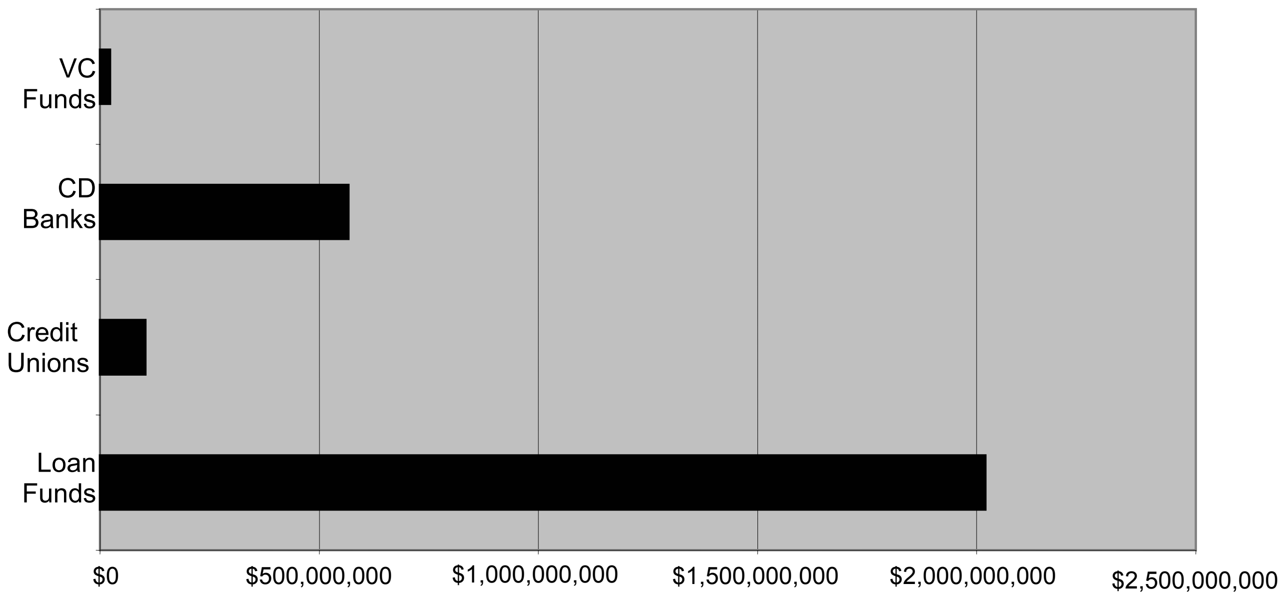
[34] The data on this chart are from FY2005.
[35] The Earned Income Index is the ratio of Earned Income to Total Revenue.

funds are not regulated, allowing them greater self-determination in goals for financial performance and risk.

Banks, credit unions, and loan funds borrow funds to expand their lending operations. Loan funds rely a great deal on borrowed funds, as shown in Chart A.3. Borrowing from credit unions tends to be limited to the larger credit unions.

Chart A.3: Aggregate Borrowed Funds by Institution Type

Source: CDP.

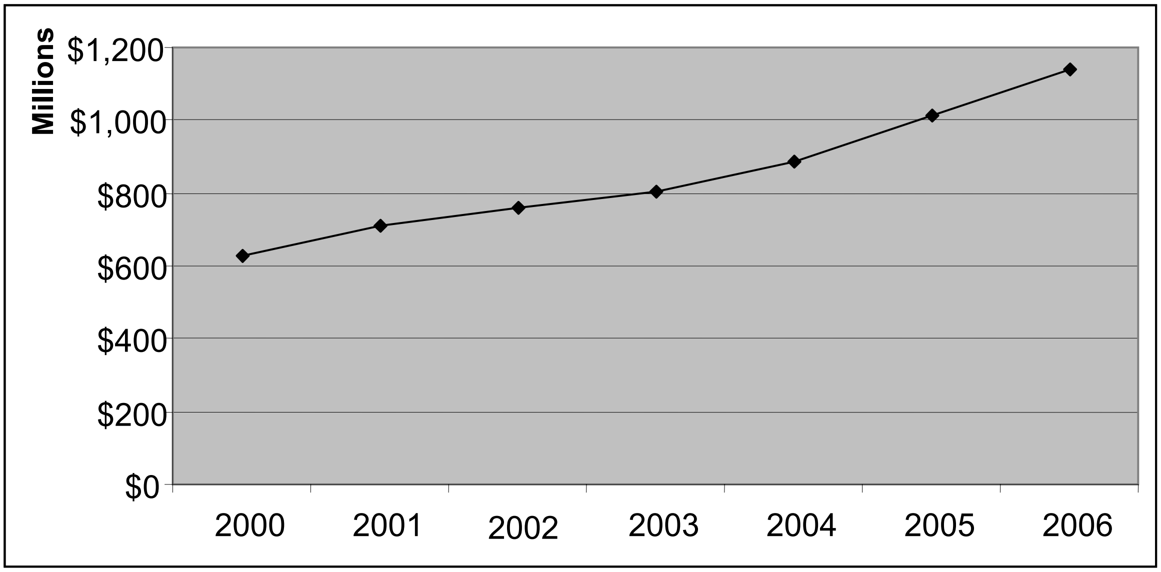


Loan funds, in contrast, leverage their equity for lending capital through borrowing. The funds are typically borrowed at below-market rates, allowing loan funds to pass on lower rates to their customers and/or to make money on the "spread" of money earned on funds to the cost of funds. Loan funds typically have a higher equity capitalization rate than the depository institutions. Loan funds also typically rely on ongoing contributions to support their operations.

As can be seen in Chart A.4, the amount of debt held by loan funds increased by 81 percent from 2000 through 2006.

Chart A.4: Change in Debt Held by CDFI Loan Funds 2000 – 2006

Source: CDP.



The source of debt capital has changed. Table A.11 shows changes in sources of debt for 55 loan funds between 2000 and 2005.[36] Banks continued as the largest source of capital in 2005, followed by foundations. Note, however, that debt from non-depository financial institutions (insurance companies, pension funds, etc.) increased substantially.

Table A.11: Source of Debt by Institution Type 2000 and 2005

Source: CDP. n=55

	2000	2005	Diff
Banks, Thrifts, etc.	$255,258,256	$385,068,300	51%
Foundations	$134,056,929	$138,663,142	3%
Non-Depository Fin Inst.	$24,667,287	$102,380,635	315%
Federal Government	$56,386,274	$59,767,849	6%
Religious Institutions	$35,002,180	$47,712,279	36%
Nat'l Intermediaries	$12,273,544	$44,305,324	261%
Individuals	$12,916,054	$18,148,729	41%
State and Local Gov't	$12,971,725	$17,966,236	39%
Corporations	$24,667,287	$17,530,701	-29%
Other	$10,364,873	$12,008,927	16%

While all CDFIs rely upon subsidies for sustainability, they do vary in the amount of subsidy needed to support ongoing operations and growth. Banks and credit unions typically operate at self-sufficiency or near self-sufficiency levels, as shown in Table A.12.

[36] Please note that a single large outlier was not included in this discussion.

Table A.12: Self-Sufficiency Index[37] by Institution Type

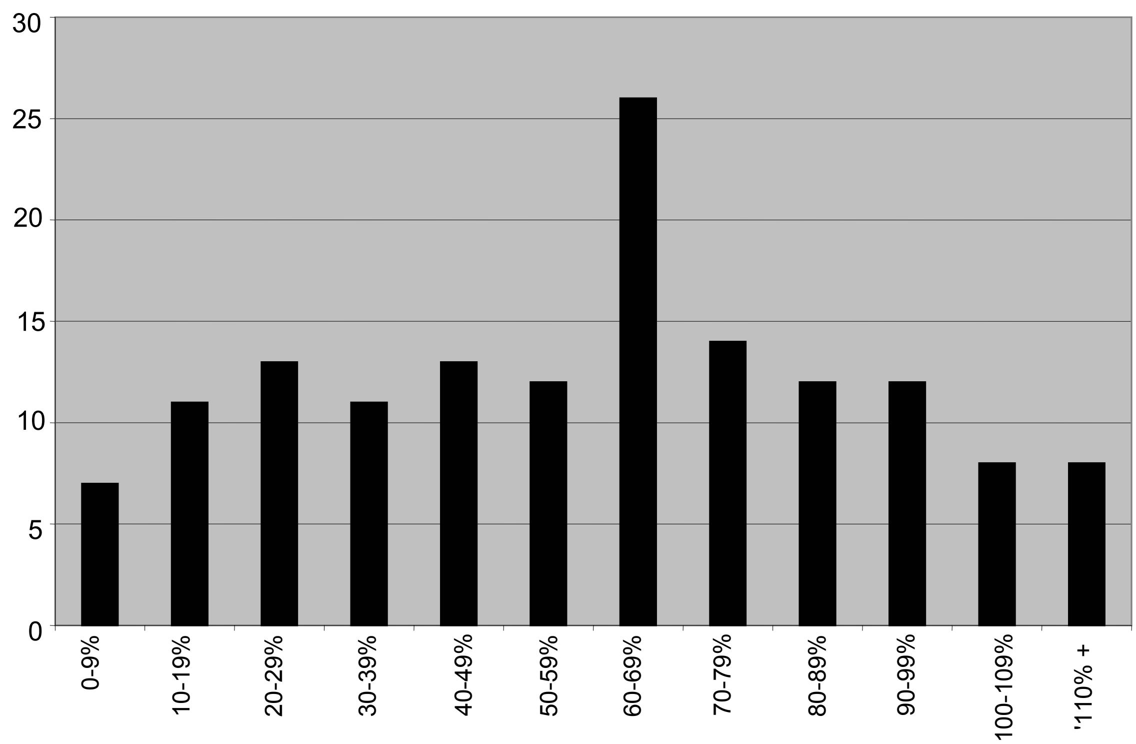
Source: Derived from CDP Statistics.

	Loan Fund	Credit Unions	Banks	Venture Funds
Mean	64.89%	104.82%	115.80%	68.31%
Median	63.00%	105.97%	111.13%	62.49%
Minimum	2.43%	42.95%	82.77%	2.38%
Maximum	224.96%	506.46%	160.26%	194.86%
N	148	114	51	15

Loan funds, in contrast, are much more reliant on ongoing operating subsidies. Only 11 percent had achieved self-sufficiency in FY2005, and an additional 16 percent were within 20 percentage points of attainment. The self-sufficiency index of loan funds shows a lot of variation, as shown in Chart A.5.

Chart A.5: Distribution of Loan Fund Self-Sufficiency

Source: CDP.



Institution type and principal lines of business affect self-sufficiency. Community development credit unions tend to specialize in personal development lending,[38] an area often characterized by a high number of transactions and relatively small dollar amounts of loans. Housing financing includes both financing to housing developers and direct mortgage lending to low-income

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[37] The Self-Sufficiency Index is the ratio of Earned Income over Total Operating Expenses

[38] Includes personal loans for health, education, emergency, debt consolidation, transportation, and other consumer purposes. It may also include non-financial services such as financial literacy training or programs that encourage savings.

individuals. CDFIs providing mortgage financing also typically provide homeownership counseling and other services. Business lending is primarily to small and medium-sized businesses (SMEs). Microenterprise lending targeted to the smallest businesses, those with fewer than five employees and with capital needs of less than $35,000, is also a line of business characterized by a high number of transactions and relatively small dollar loan amounts.

As can be seen in Table A.13, housing lenders tend to have the highest rates of self-sufficiency among loan funds. Microlenders tend to have lower rates. Interestingly, business lenders tend to be well represented in all four categories of self-sufficiency.

While banks and credit unions may make loans to very small businesses, none devote 50 percent or more of their lending to this market. After consumer loans, housing is a more typical area of specialization for the depository institutions. Venture capital funds are focused exclusively on investments into small- and medium-sized businesses.

Table A.13: Focus of Lending by Institution Type

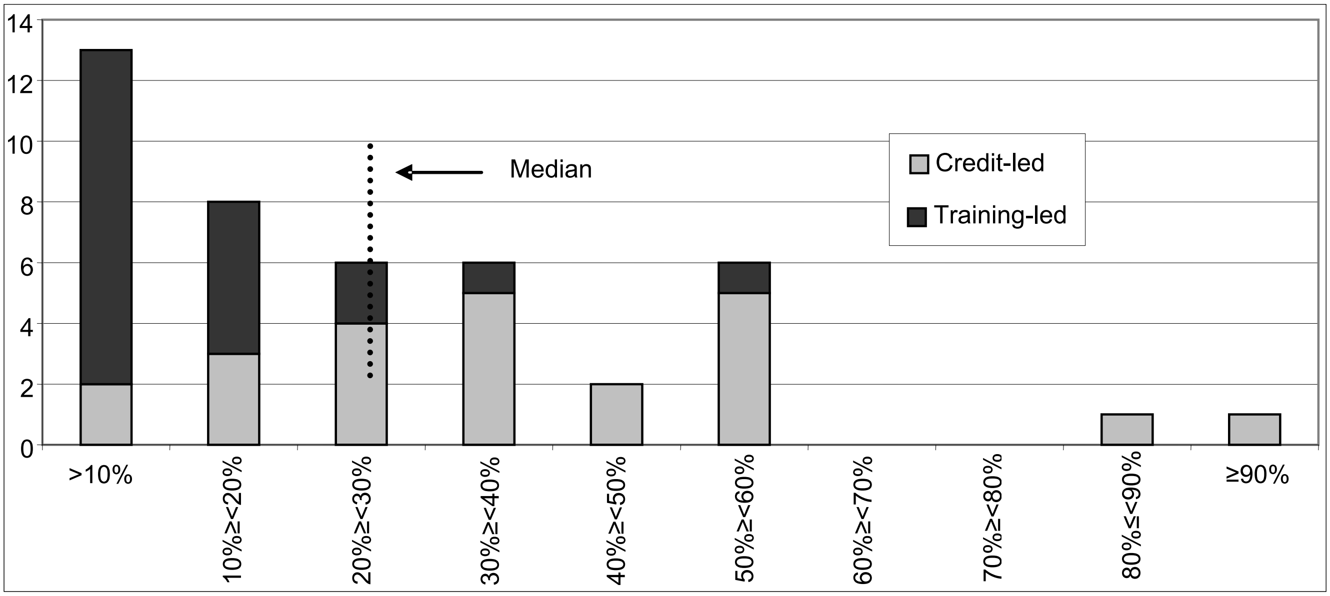
Source: CDP.

	Business	Housing	Micro	Personal Dev	Community Facil	Other
Credit Union		19 31%		81 100%		3 100%
Thrift, Bank, Bank Holding Company	1 2%	3 5%				
Venture Capital Fund	15 24%					
Loan Fund, SS less than 25%	6 10%	2 3%	15 52%			
Loan Fund, SS 25%-50%	12 19%	7 11%	5 17%		2 20%	
Loan Fund, SS 50%- 75%	13 21%	13 21%	6 21%		5 50%	
Loan Fund, SS over 75%	16 25%	18 29%	3 10%		3 30%	
Total	63 100%	62 100%	29 100%	81 100%	10 100%	3 100%

Chart A.6, based upon MicroTest data, shows the distribution of self-sufficiency among microenterprise programs. There is considerable variation across the field, with those organizations focused primarily on lending more likely to be self-sufficient than training-led programs.

Chart A.6: Distribution of Microenterprise Program Self-Sufficiency

Source: MicroTest.



Because loan funds can have very different agendas – from pure spread lenders to social service agencies with a lending component – it is difficult to generalize how operating subsidies are used. Earned income can support anywhere from 0 to 110+ percent, although as has already been noted there is a concentration of loan funds with self-sufficiency indexes in the 60 percent - 69 percent range. Loan funds may have very efficient (and self-sufficient) loan funds, but overall the loan fund may engage in heavily subsidized activities such as the provision of affordable housing or Individual Development Accounts.

Over the period 2001 through 2005, the loan funds with longitudinal data in each year from 2001 through 2005 have achieved an overall increase in self-sufficiency of about 6 percent. However, as shown in Table A.14 below, the self-sufficiency index varies considerably from year to year (the rate would vary, on average, +/- 6 points from one year to the next).

Table A.14: Self-Sufficiency Index for Loan Funds 2001 – 2005

Source: Ratios generated with CDP Data.

	2001	2002	2003	2004	2005
First Quartile	73%	54%	67%	65%	74%
Second Quartile	55%	55%	62%	120%	64%
Third Quartile	66%	56%	54%	61%	68%
Fourth Quartile	80%	69%	74%	63%	87%
All Loan Funds	76%	65%	69%	77%	82%

For those loan funds with data for all five years from 2001 – 2005 the median change in self-sufficiency is 3 percent. Slightly more than half (55 percent) of the loan funds increased in self-sufficiency, while the remainder either reported decreases in self-sufficiency (41 percent) or stayed the same.

Income from lending is not always the principal source of earned income. In fact, pure spread lenders appear to be quite rare—23 of 150 lenders that fit this criterion were found in the data.[39] It is very difficult for spread lenders to generate positive returns from lending interest only, and efficiency (as measured by the ratio of expenses to loan volume) appears to be a first-level determinant. Interestingly, while some very efficient programs were also very large, program size was neither a predictor nor a pre-condition to efficiency. Efficient programs were of all sizes. Selected statistics from this group are shown in Table A.15.

Table A.15: Portfolio Return for Selected Loan Funds

Source: CDP and OFN.

Operating Expense	Expense/Loan Volume	Yield on Portfolio	Portfolio Return
$35,277,060	4.29%	5.24%	0.96%
$3,765,000	3.45%	3.97%	0.52%
$478,430	3.81%	3.58%	-0.23%
$2,317,263	5.32%	4.86%	-0.45%
$340,311	8.54%	7.38%	-1.17%
$1,152,443	8.07%	6.13%	-1.94%
$1,117,383	10.71%	8.73%	-1.99%
$405,382	6.91%	4.92%	-1.99%
$65,157	6.11%	3.98%	-2.13%
$452,302	9.45%	6.71%	-2.75%
$467,732	7.50%	4.32%	-3.18%
$6,198,267	6.94%	3.67%	-3.26%
$1,167,399	8.18%	4.56%	-3.62%
$6,917,720	10.01%	5.07%	-4.94%
$181,779	10.24%	4.85%	-5.39%
$278,238	11.65%	6.14%	-5.51%
$1,253,192	11.61%	5.92%	-5.70%
$512,002	13.38%	7.23%	-6.15%
$923,767	16.21%	9.08%	-7.14%
$1,105,164	13.94%	5.61%	-8.33%
$1,097,680	15.02%	6.58%	-8.44%
$1,523,864	23.94%	13.22%	-10.72%
$987,750	20.71%	9.67%	-11.05%

[39] To be in this group, at least 60% of earned income had to be earned from interest on the loan fund.

APPENDIX B: Survey Data

Survey of CDFI Experiences and Attitudes Regarding Sustainability

The second component of research consisted of a survey of CDFIs that sought to determine their experiences with and attitudes towards sustainability. In particular, the survey sought to determine the level of self-sufficiency that the CDFIs had achieved, how they defined "sustainability" for their CDFI, the sources of subsidy the institutions received and the purposes to which subsidy was applied, and the strategies the CDFIs were pursuing and threats they faced in achieving sustainability. A draft of the survey instrument follows this summary of the research process. The survey was designed to be applicable to all institutional types of CDFIs,[40] but constructed so that the data could be stratified according to institutional types.

The survey was created and administered using Survey Monkey. Seeking to reach out to as many CDFIs and CDFI-like institutions as possible,[41] the research team took a broad approach to outreach and inclusion. The team used a number of email lists of CDFIs created and maintained by its members. Abt Associates also provided an email list developed as part of a project they had conducted for the CDFI Fund. The team also conducted outreach to numerous other organizations, including membership organizations of CDFIs, and asked them to provide their lists or to email a message to their list members with a link to the survey. For purposes of the survey, CDFIs and CDFI-like institutions were defined as follows:

> Specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFIs provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans, and investments to small start-up or expanding businesses in low-income areas. CDFIs include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds. CDFI-like institutions meet the above definition, but are not required to have been certified by the CDFI Fund as such.

Organizations that assisted in outreach efforts—either by providing a list to the project team, or mailing a notification with a link to the survey—included the Opportunity Finance Network, Community Development Venture Capital Alliance, Association for Enterprise Opportunity, National Federation of Community Development Credit Unions, the National Community Investment Fund, and NeighborWorks America.

[40] These types included banks and thrifts, credit unions, community development loan funds, microenterprise loan funds, intermediaries, and others.
[41] A CDFI-like organization is a specialized financial institution with a mission to serve low-income individuals and communities. They are not formally certified by the CDFI Fund. These organizations fill a critical gap between the financial services needed in low-income communities and those made available from mainstream financial institutions.

Respondents were offered an incentive to respond in the form of entry into a lottery for three $50 gift certificates to amazon.com. Contacts on the mailing list developed by the project team received three reminders over the course of the survey period.

The final data set consisted of 261 surveys, after cleaning to remove duplicate responses and surveys from organizations that were not CDFIs or CDFI-like institutions. Additional data cleaning was conducted on the responses to some survey questions. For example, in some instances a respondent chose the response option "other," but the response the person gave when asked to specify his or her answer was clearly consistent with one of the available response choices. Such responses were re-coded.

After the data cleaning was complete, the survey team analyzed the data both for the sample as a whole, and after stratifying the sample by institutional type. Answers to an open-ended question regarding the strategies being used to achieve greater sustainability were analyzed and coded into categories representing the type of strategy, such as increasing loan volume, expanding into new markets, organizational restructuring, increasing efficiency, and partnerships and strategic alliances.

Data tables that summarize the responses to the quantitative questions follow the copy of the survey instrument. Also included is a copy of the data analysis with the data stratified by institutional type. In reviewing the survey findings, it is important to note that all respondents were asked whether they reported to any of three data collection efforts that exist within the CDFI field: the CIIS, CDP, and MicroTest. As the research team had access to these three data sets, anyone who responded yes to those questions was not asked to provide quantitative data on assets, income, or cost recovery.

Chart B.1: Survey Responses

Source: The Aspen Institute.

1. Total number of respondents for survey analysis

	Response Percent	Response Count
answered question	**100.0%**	**261**

2. What type of CDFI is your organization? If your CDFI includes multiple affiliates, please check all that apply.

	Response Percent	Response Count
Community Development Loan Fund	**62.5%**	**160**
Community Development Credit Union	**19.9%**	51
Community Development Bank (Bank, Thrift or Bank Holding Company)	**9.4%**	24
Community Development Venture Capital Fund	**3.9%**	10
Intermediaries	**3.1%**	8
Other (please describe)	**10.9%**	28
	answered question	**256**
	skipped question	**5**

3. What types of products and services does your CDFI offer (please check all that apply):

	Response Percent	Response Count
Microenterprise financing *(business investments of $35,000 or less)*	51.0%	130
Small business financing *(business investments larger than $35,000)*	**52.9%**	**135**
Housing finance	52.5%	134
Community facilities/services financing	34.5%	88
Consumer/retail financial products and services *(includes health, education, emergency, debt-consolidation, transportation, and alternatives to payday loans, as well as bill payment, check cashing, direct deposit, electronic funds transfer, money order and wire transfer services)*	33.3%	85
Personal development/nonfinancial products and services *(includes Individual Development Accounts, financial literacy training, business training and technical assistance, credit counseling, homeownership training, etc.)*	52.2%	133
Investments in CDFI's	2.4%	6
Other (please specify)	6.3%	16
	answered question	**255**
	skipped question	**6**

4. Did your CDFI report your Fiscal Year (FY) 2006 performance to (please check all that apply):

	Response Percent	Response Count
The CDFI Data Collection Project (CDP)	31.0%	79
The CDFI Fund's Community Investment and Impact System (CIIS)	**39.2%**	**100**
MicroTest	11.4%	29
None of the above	25.1%	64
Don't know	18.8%	48
	answered question	**255**
	skipped question	**6**

5. What were the total expenses of your CDFI for FY2006?

	Response Percent	Response Count
Less than $250,000	**30.2%**	**29**
$250,000 to $499,999	12.5%	12
$500,000 to $999,999	10.4%	10
$1 million to $4,999,999	19.8%	19
$5 million to $9,999,999	4.2%	4
$10 million to $19,999,999	5.2%	5
$20 million or more	3.1%	3
Don't know	14.6%	14
	answered question	**96**
	skipped question	**165**

6. What percent of your total FY06 expenses (indicated above) were covered by revenues from earned interest and fees on loans, technical assistance/training fees or other service fees, and interest generated on loan fund capital? (NOTE: these revenues should include fees paid directly by customers, not through third-party contracts.)

	Response Percent	Response Count
	answered question	**96**
	skipped question	**165**

7. What were the total assets of your CDFI (as of the end of your 2006 fiscal year)?

	Response Percent	Response Count
Less than $5 million	**41.8%**	**46**
$5 million to $9,999,999	13.6%	15
$10 million to $19,999,999	14.5%	16
$20 million to $49,999,999	9.1%	10
$50 million to $99,999,999	6.4%	7
$100 million or more	10.9%	12
Don't know	3.6%	4
	answered question	**110**
	skipped question	**151**

8. Is achieving 100% cost recovery through the revenue sources listed below a goal or requirement of your CDFI? ***Note: these revenues should include fees paid directly by customers, not through third-party contracts.***

- **earned interest and fees on loans**
- **technical assistance/training/other service fees**
- **interest generated on loan fund capital/non-interest or investment income for depositories.**

	Response Percent	Response Count
Yes	**59.5%**	**147**
No	32.0%	79
Don't know	8.5%	21
	answered question	**247**
	skipped question	**14**

9. If no, why not?

	Response Percent	Response Count
	answered question	**61**
	skipped question	**200**

10. What percent of cost recovery through the above revenue sources are you trying to achieve?

	Response Percent	Response Count
0%	5.3%	4
1-25%	13.2%	10
26-50%	13.2%	10
51-75%	**35.5%**	**27**
75-99%	21.1%	16
Other	0.0%	0
Don’t know	11.8%	9
	answered question	**76**
	skipped question	**185**

11. How do you define organizational sustainability for your CDFI?

	Response Percent	Response Count
Achieving 100% cost recovery through revenues from customers *(Earned interest and fees on loans, technical assistance/training fees or other service fees, and interest generated on loan fund capital. NOTE: these revenues should include fees paid directly by customers, not through third-party contracts.)*	17.8%	42
Balancing internal and external resources to cover costs and maintain the value of the capital pool.	16.5%	39
Balancing a focus on mission, organizational capacity and capitalization such that our CDFI can sustain and/or increase its impact over time.	**56.4%**	**133**
Don’t know	2.1%	5
Other (please specify)	7.2%	17
	answered question	**236**
	skipped question	**25**

12. In relationship to your definition, do you think your CDFI has:

	Response Percent	Response Count
Achieved sustainability	28.4%	65
Made substantial progress towards sustainability	**38.0%**	**87**
Made moderate progress towards sustainability	24.5%	56
Made limited progress	7.9%	18
Not made progress	1.3%	3
	answered question	**229**
	skipped question	**32**

13. What are the topthree strategies your CDFI is using to increase your sustainability?

	Response Percent	Response Count
Scaling up loan volume	**67.4%**	**155**
Modifying pricing of products and services	17.8%	41
Increasing efficiencies	46.1%	106
Cross-subsidizing between profitable and unprofitable products/services	24.8%	57
Introducing more profitable products and services	26.5%	61
Expanding revenues generated through third-party contracts	17.4%	40
Building an endowment	5.7%	13
Establishing revenue-generating social enterprises	9.1%	21
Selling products/services to other institutions *(e.g. consulting, management or back-office services; curricula)*	9.6%	22
Cultivating a committed donor base	18.3%	42
Strategic alliances/partnerships to reduce costs/increase revenues	41.3%	95
Limiting our growth to contain funding requirements	8.7%	20
Changing institutional structure *(merger, acquisition, transformation to a regulated institution)*	5.7%	13
Other (please specify)	9.6%	22
	answered question	**230**
	skipped question	**31**

14. What is the most innovative strategy or work that you are currently engaged in to enhance the sustainability of your CDFI?

	Response Percent	Response Count
	answered question	**189**
	skipped question	**72**

15. If you are currently using subsidy to support your CDFI, what are your uses for subsidy? (*Here subsidy is defined to include grant income, third party contracts or below-market financing from investors.)* Please check all that apply.

	Response Percent	Response Count
to reduce interest rates for borrowers	27.8%	58
to underwrite operational expenses of lending	51.7%	108
to cover cost of training/TA and other development services	**63.2%**	**132**
for loan loss reserves	39.7%	83
to fund loan guarantees	11.5%	24
to develop needed technology, information systems, and other infrastructure	47.4%	99
to expand services to new geographic and demographic markets	45.9%	96
for product development and testing	23.4%	49
for outcomes research, impact assessment or other research	19.6%	41
expand/improve capitalization	3.8%	8
don't know	3.3%	7
other (please specify)	3.3%	7
	answered question	**209**
	skipped question	**52**

17. Please review the list of subsidy sources for your CDFI below. Check your top three sources of support in FY 2006. Looking ahead to the year 2010, check the three you expect to be your primary sources of support.

	FY2006		FY2010	
Foundations *(Note this should include corporate foundations, including those affiliated with financial institutions, e.g. Citigroup Foundation, Bank of America Foundation.)*	85%	(141)	86%	(142)
Government	94%	(169)	84%	(150)
Private financial institutions	85%	(106)	89%	(110)
Religious orders/institutions	77%	(20)	65%	(17)
Individuals *(donors or investors)*	50%	(27)	94%	(51)
Socially-responsible investment firms *(e.g. Calvert Social Investment Foundation)*	58%	(38)	82%	(53)
Other	87%	(26)	67%	(20)
(please specify other)				31
answered question				**213**
skipped question				**48**

18. As you look ahead to 2010, do you expect your CDFI to be:

	Response Percent	Response Count
More sustainable	**84.1%**	**190**
Less sustainable	0.9%	2
About the same	14.2%	32
Don't know	0.9%	2
answered question		**226**
skipped question		**35**

19. As you look ahead to 2010, what do you perceive are the greatest threats to your CDFI's organizational sustainability? *Please check all that apply.*

	Response Percent	Response Count
Increased competition	42.9%	96
Changing donor interest	32.1%	72
Greater losses	23.7%	53
Higher cost of funds	**56.3%**	**126**
Products generate limited customer interest	13.8%	31
Limited geographic markets	19.2%	43
Too few product lines	18.3%	41
Limited funding/capital availability	4.5%	10
Changing public policy toward CDFIs	4.5%	10
Economic/financial crisis	1.8%	4
Staffing/HR challenges	5.4%	12
Regulatory/reporting requirements	2.2%	5
Other (please specify)	8.9%	20
answered question		**224**
skipped question		**37**

	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
			Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count		
			100.0%	160	100.0%	51	100.0%	24	100.0%	10		
Community Development Loan Fund			**100.0%**	**160**								
Community Development Credit Union					**100.0%**	**51**						
Community Development Bank (Bank, Thrift or Bank Holding Company)								**24**				
Community Development Venture Capital Fund												
			Response Percent	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**		
			54.7%	87	42.0%	21	66.7%	16	40.0%	4		
			56.6%	90	**30.0%**	15	**95.8%**	**23**	**90.0%**	**9**		
			51.6%	82	52.0%	26	79.2%	19	30.0%	3		
			37.1%	59	18.0%	9	70.8%	17	20.0%	2		
Consumer/retail financial products and services *(includes health, education, emergency, debt-consolidation, transportation, and alternatives to payday loans, as well as bill payment, check cashing, direct deposit, electronic funds transfer, money order and wire transfer services)*			10.7%	17	94.0%	47	83.3%	20	0.0%	0		
Personal development/nonfinancial products and services *(includes Individual Development Accounts, financial literacy training, business training and technical assistance, credit counseling, homeownership training, etc.)*			38.4%	61	90.0%	45	70.8%	17	40.0%	4		
			1.3%	2	0.0%	0	0.0%	0	0.0%	0		
			6.9%	11	2.0%	1	0.0%	0	20.0%	2		
				159		**50**		**24**		**10**		
				1		**1**		**0**		**0**		
4. Did your CDFI report your Fiscal Year (FY) 2006 performance to (please check all that apply): **1. Total number of respondents for survey analysis**	**Response**	**Response**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**		**Response Count**	**Response Percent**	**Response Count**	**Response**	**Response**
			34.0%	54	34.0%	17	16.7%	4	**60.0%**	**6**		
			45.3%	72	**28.0%**	14	20.8%	5	50.0%	5		
			17.6%	28	0.0%	0	0.0%	0	10.0%	1		
			22.0%	35	26.0%	13	29.2%	7				
			15.1%	24	26.0%	13	**41.7%**	**10**		0		
				159		**50**		**24**				
				1		**1**		**0**				

5. What were the total expenses of your CDFI for FY2006?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
Less than $250,000	**30.2%**	**29**	**31.3%**	15	**34.8%**	8	7.1%	1	50.0%	1	0.0%	0
$250,000 to $499,999	12.5%	12	14.6%	7	13.0%	3	0.0%	0	0.0%	0	**50.0%**	**1**
$500,000 to $999,999	10.4%	10	12.5%	6	17.4%	4	0.0%	0	0.0%	0	0.0%	0
$1 million to $4,999,999	19.8%	19	27.1%	13	4.3%	1	28.6%	4	0.0%	0	0.0%	0
$5 million to $9,999,999	4.2%	4	4.2%	2	0.0%	0	7.1%	1	50.0%	1	0.0%	0
$10 million to $19,999,999	5.2%	5	6.3%	3	0.0%	0	7.1%	1	0.0%	0	0.0%	0
$20 million or more	3.1%	3	0.0%	0	0.0%	0	14.3%	2	0.0%	0	**50.0%**	**1**
Don't know	14.6%	14	4.2%	2	30.4%	7	**35.7%**	**5**	0.0%	0	0.0%	0
answered question		**96**		**48**		**23**		**14**		**2**		**2**
skipped question		**165**		**112**		**28**		**10**		**8**		**6**

6. What percent of your total FY06 expenses (indicated above) were covered by revenues from earned interest and fees on loans, technical assistance/training fees or other service fees, and interest generated on loan fund capital?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
answered question		**96**		**43**		**14**		**7**		**1**		**1**
skipped question		**165**		**117**		**37**		**17**		**9**		**7**

7. What were the total assets of your CDFI (as of the end of your 2006 fiscal year)?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
Less than $5 million	**41.8%**	**46**	**40.7%**	24	**56.0%**	14	0.0%	0	**50.0%**	**1**	**33.3%**	**1**
$5 million to $9,999,999	13.6%	15	13.6%	8	16.0%	4	7.1%	1	**50.0%**	**1**	**33.3%**	**1**
$10 million to $19,999,999	14.5%	16	22.0%	13	12.0%	3	7.1%	1	0.0%	0	0.0%	0
$20 million to $49,999,999	9.1%	10	8.5%	5	8.0%	2	14.3%	2	0.0%	0	0.0%	0
$50 million to $99,999,999	6.4%	7	6.8%	4	8.0%	2	7.1%	1	0.0%	0	0.0%	0
$100 million or more	10.9%	12	3.4%	2	0.0%	0	**57.1%**	**8**	0.0%	0	**33.3%**	**1**
Don't know	3.6%	4	5.1%	3	0.0%	0	7.1%	1	0.0%	0	0.0%	0
answered question		**110**		**59**		**25**		**14**		**2**		**3**
skipped question		**151**		**101**		**26**		**10**		**8**		**5**

8. Is achieving 100% cost recovery through the revenue sources listed below a goal or requirement of your CDFI?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
Yes	**59.5%**	**147**	**60.4%**	**93**	**57.4%**	**27**	**72.7%**	**16**	**50.0%**	**5**	**50.0%**	**4**
No	32.0%	79	37.0%	57	17.0%	8	9.1%	2	**50.0%**	**5**	**50.0%**	**4**
Don't know	8.5%	21	2.6%	4	25.5%	12	18.2%	4	0.0%	0	0.0%	0
answered question		**247**		**154**		**47**		**22**		**10**		**8**
skipped question		**14**		**6**		**4**		**2**		**0**		**0**

9. If no, why not?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
answered question		**61**		**46**		**3**		**0**		**4**		**4**
skipped question		**200**		**114**		**48**		**24**		**6**		**4**

10. What percent of cost recovery through the above revenue sources are you trying to achieve?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
0%	5.3%	4	1.8%	1	0.0%	0	0.0%	0	25.0%	1	**25.0%**	**1**
1-25%	13.2%	10	12.3%	7	0.0%	0	0.0%	0	0.0%	0	0.0%	0
26-50%	13.2%	10	14.0%	8	0.0%	0	0.0%	0	25.0%	1	**25.0%**	**1**
51-75%	**35.5%**	**27**	**40.4%**	23	**16.7%**	1	**50.0%**	1	**50.0%**	**2**	0.0%	0
75-99%	21.1%	16	24.6%	14	33.3%	2	0.0%	0	0.0%	0	**25.0%**	**1**
Other	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0
Don't know	11.8%	9	7.0%	4	50.0%	3	50.0%	1	0.0%	0	**25.0%**	**1**
answered question		**76**		**57**		**6**		**2**		**4**		**4**
skipped question		**185**		**103**		**45**		**22**		**6**		**4**

11. How do you define organizational sustainability for your CDFI?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
Achieving 100% cost recovery through revenues from customers *(Earned interest and fees on loans, technical assistance/training fees or other service fees, and interest generated on loan fund capital. NOTE: these revenues should include fees paid directly by customers, not through third-party contracts.)*	17.8%	42	15.4%	23	17.8%	8	26.3%	5	20.0%	2	12.5%	1
Balancing internal and external resources to cover costs and maintain the value of the capital pool.	16.5%	39	18.8%	28	8.9%	4	5.3%	1	30.0%	3	0.0%	0
Balancing a focus on mission, organizational capacity and capitalization such that our CDFI can sustain and/or increase its impact over time.	**56.4%**	**133**	**57.7%**	**86**	**62.2%**	**28**	**52.6%**	**10**	**40.0%**	**4**	**62.5%**	**5**
Don't know	2.1%	5	0.0%	0	4.4%	2	10.5%	2	0.0%	0	12.5%	1
Other (please specify)	7.2%	17	8.1%	12	6.7%	3	5.3%	1	10.0%	1	12.5%	1
answered question		**236**		**149**		**45**		**19**		**10**		**8**
skipped question		**25**		**11**		**6**		**5**		**0**		**0**

12. In relationship to your definition, do you think your CDFI has:	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
Achieved sustainability	28.4%	65	23.1%	34	34.9%	15	**58.8%**	**10**	**40.0%**	**4**	28.6%	2
Made substantial progress towards sustainability	**38.0%**	**87**	**42.9%**	**63**	**34.9%**	**15**	23.5%	4	**40.0%**	**4**	**42.9%**	**3**
Made moderate progress towards sustainability	24.5%	56	24.5%	36	23.3%	10	11.8%	2	20.0%	2	28.6%	2
Made limited progress	7.9%	18	8.2%	12	7.0%	3	5.9%	1	0.0%	0	0.0%	0
Not made progress	1.3%	3	1.4%	2	0.0%	0	0.0%	0	0.0%	0	0.0%	0
answered question		**229**		**147**		**43**		**17**		**10**		**7**
skipped question		**32**		**13**		**8**		**7**		**0**		**1**

13. What are the top three strategies your CDFI is using to increase your sustainability?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
Scaling up loan volume	**67.4%**	**155**	**72.6%**	**106**	**63.0%**	**29**	**73.7%**	**14**	**20.0%**	**2**	**37.5%**	**3**
Modifying pricing of products and services	17.8%	41	17.1%	25	26.1%	12	21.1%	4	10.0%	1	25.0%	2
Increasing efficiencies	46.1%	106	42.5%	62	56.5%	26	57.9%	11	30.0%	3	25.0%	2
Cross-subsidizing between profitable and unprofitable products/services	24.8%	57	25.3%	37	26.1%	12	26.3%	5	30.0%	3	25.0%	2
Introducing more profitable products and services	26.5%	61	19.9%	29	43.5%	20	36.8%	7	20.0%	2	**37.5%**	**3**
Expanding revenues generated through third-party contracts	17.4%	40	22.6%	33	6.5%	3	10.5%	2	10.0%	1	25.0%	2
Building an endowment	5.7%	13	5.5%	8	4.3%	2	0.0%	0	10.0%	1	0.0%	0
Establishing revenue-generating social enterprises	9.1%	21	10.3%	15	4.3%	2	5.3%	1	20.0%	2	0.0%	0
Selling products/services to other institutions *(e.g. consulting, management or back-office services; curricula)*	9.6%	22	11.0%	16	4.3%	2	0.0%	0	10.0%	1	**37.5%**	**3**
Cultivating a committed donor base	18.3%	42	18.5%	27	8.7%	4	5.3%	1	**40.0%**	**4**	**37.5%**	**3**
Strategic alliances/partnerships to reduce costs/increase revenues	41.3%	95	44.5%	65	37.0%	17	42.1%	8	30.0%	3	**37.5%**	**3**
Limiting our growth to contain funding requirements	8.7%	20	7.5%	11	8.7%	4	5.3%	1	20.0%	2	12.5%	1
Changing institutional structure *(merger, acquisition, transformation to a regulated institution)*	5.7%	13	7.5%	11	0.0%	0	5.3%	1	20.0%	2	0.0%	0
Other (please specify)	9.6%	22	8.2%	12	8.7%	4	10.5%	2	30.0%	3	0.0%	0
answered question		**230**		**146**		**46**		**19**		**10**		**8**
skipped question		**31**		**14**		**9**		**5**		**0**		**0**

14. What is the most innovative strategy or work that you are currently engaged in to enhance the sustainability of your CDFI?	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
answered question		**189**		**125**		**36**		**10**		**9**		**6**
skipped question		**72**		**35**		**15**		**14**		**1**		**2**

15. If you are currently using subsidy to support your CDFI, what are your uses for subsidy? (Here, subsidy is defined to include grant income, third party contracts or below-market financing from investors.) Please check all that apply.	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count	Response Percent	Response Count
to reduce interest rates for borrowers	27.8%	58	30.7%	42	19.4%	7	26.7%	4	0.0%	0	12.5%	1
to underwrite operational expenses of lending	51.7%	108	61.3%	84	19.4%	7	40.0%	6	42.9%	3	37.5%	3
to cover cost of training/TA and other development services	**63.2%**	**132**	**65.0%**	**89**	**66.7%**	**24**	**46.7%**	**7**	42.9%	3	**50.0%**	**4**
for loan loss reserves	39.7%	83	46.0%	63	25.0%	9	40.0%	6	14.3%	1	25.0%	2
to fund loan guarantees	11.5%	24	11.7%	16	19.4%	7	13.3%	2	0.0%	0	12.5%	1
to develop needed technology, information systems, and other infrastructure	47.4%	99	46.0%	63	58.3%	21	46.7%	7	**57.1%**	**4**	25.0%	2
to expand services to new geographic and demographic markets	45.9%	96	47.4%	65	47.2%	17	33.3%	5	42.9%	3	25.0%	2
for product development and testing	23.4%	49	24.1%	33	22.2%	8	20.0%	3	28.6%	2	**37.5%**	**3**
for outcomes research, impact assessment or other research	19.6%	41	20.4%	28	13.9%	5	13.3%	2	42.9%	3	**37.5%**	**3**
expand/improve capitalization	3.8%	8	4.4%	6	2.8%	1	0.0%	0	0.0%	0	0.0%	0
don't know	3.3%	7	0.0%	0	11.1%	4	20.0%	3	0.0%	0	25.0%	2
other (please specify)	3.3%	7	2.2%	3	5.6%	2	0.0%	0	28.6%	2	0.0%	0
answered question		**209**		**137**		**36**		**15**		**7**		**8**
skipped question		**52**		**23**		**15**		**9**		**3**		**0**

17. Please review the list of subsidy sources for your CDFI below. Check your top three sources of support in FY 2006. Looking ahead to the year 2010, check the three you expect to be your primary sources of support.	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	FY2006	**FY2010**	**FY2006**	**FY2010**	**FY2006**	**FY2010**	**FY2006**	**FY2010**	**FY2006**	**FY2010**	**FY2006**	**FY2010**
Foundations *(Note this should include corporate foundations, including those affiliated with financial institutions, e.g. Citigroup Foundation, Bank of America Foundation.)*	85% (141)	86% (142)	84% (98)	85% (100)	91% (20)	82% (18)	86% (6)	86% (6)	80% (4)	120% (5)	100% (7)	86% (6)
Government	94% (169)	84% (150)	94% (117)	81% (101)	96% (22)	83% (19)	92% (12)	85% (11)	57% (4)	86% (6)	100% (6)	100% (6)
Private financial institutions	85% (106)	89% (110)	84% (81)	90% (86)	94% (16)	82% (14)	33% (1)	67% (2)	67% (4)	83% (5)	100% (5)	100% (5)
Religious orders/institutions	77% (20)	65% (17)	88% (15)	59% (10)	50% (3)	83% (5)	0% (0)	100% (1)	0% (0)	0% (0)	100% (1)	0% (0)
Individuals *(donors or investors)*	50% (27)	94% (51)	39% (15)	95% (36)	67% (4)	83% (5)	100% (4)	100% (4)	50% (2)	75% (3)	0% (0)	100% (1)
Socially-responsible investment firms *(e.g. Calvert Social Investment Foundation)*	58% (38)	82% (53)	53% (24)	84% (38)	82% (9)	55% (6)	43% (3)	100% (7)	33% (1)	100% (3)	0% (0)	0% (0)
Other	87% (26)	67% (20)	86% (18)	67% (14)	80% (4)	80% (4)	100% (1)	100% (1)	100% (2)	0% (0)	100% (1)	100% (1)
(please specify other)		31		21		7		1		1		1
answered question		**213**		**142**		**36**		**14**		**8**		**8**
skipped question		**48**		**18**		**15**		**10**		**2**		**0**

18. As you look ahead to 2010, do you expect your CDFI to be:	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**
More sustainable	**84.1%**	**190**	**85.4%**	**123**	**80.5%**	**33**	**83.3%**	**15**	**90.0%**	**9**	**62.5%**	**5**
Less sustainable	0.9%	2	0.7%	1	2.4%	1	0.0%	0	0.0%	0	0.0%	0
About the same	14.2%	32	13.2%	19	17.1%	7	11.1%	2	10.0%	1	37.5%	3
Don't know	0.9%	2	0.7%	1	0.0%	0	5.6%	1	0.0%	0	0.0%	0
answered question		**226**		**144**		**41**		**18**		**10**		**8**
skipped question		**35**		**16**		**10**		**6**		**0**		**0**

19. As you look ahead to 2010, what do you perceive are the greatest threats to your CDFI's organizational sustainability? Please check all that apply.	TOTAL		Loan Fund		Credit Union		Bank		Venture Capital		Intermediaries	
	Response Percent	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**	**Response Percent**	**Response Count**
Increased competition	42.9%	96	37.8%	54	61.9%	26	**72.2%**	**13**	22.2%	2	37.5%	3
Changing donor interest	32.1%	72	32.9%	47	21.4%	9	22.2%	4	33.3%	3	**50.0%**	**4**
Greater losses	23.7%	53	25.9%	37	23.8%	10	27.8%	5	22.2%	2	12.5%	1
Higher cost of funds	**56.3%**	**126**	**58.7%**	**84**	**64.3%**	**27**	**72.2%**	**13**	**55.6%**	**5**	37.5%	3
Products generate limited customer interest	13.8%	31	10.5%	15	21.4%	9	22.2%	4	11.1%	1	25.0%	2
Limited geographic markets	19.2%	43	16.8%	24	28.6%	12	11.1%	2	11.1%	1	25.0%	2
Too few product lines	18.3%	41	17.5%	25	23.8%	10	11.1%	2	11.1%	1	12.5%	1
Limited funding/capital availability	4.5%	10	6.3%	9	0.0%	0	5.6%	1	11.1%	1	0.0%	0
Changing public policy toward CDFIs	4.5%	10	3.5%	5	2.4%	1	0.0%	0	11.1%	1	12.5%	1
Economic/financial crisis	1.8%	4	2.1%	3	2.4%	1	0.0%	0	0.0%	0	0.0%	0
Staffing/HR challenges	5.4%	12	4.9%	7	7.1%	3	5.6%	1	0.0%	0	0.0%	0
Regulatory/reporting requirements	2.2%	5	0.7%	1	7.1%	3	5.6%	1	0.0%	0	0.0%	0
Other (please specify)	8.9%	20	9.8%	14	9.5%	4	0.0%	0	22.2%	2	0.0%	0
answered question		**224**		**143**		**42**		**18**		**9**		**8**
skipped question		**37**		**17**		**9**		**6**		**1**		**0**

APPENDIX C: Case Studies

Introduction

The set of institutions used for our look at CDFI sustainability includes four loan funds, two credit unions, and two banks. We looked at both regulated and non-regulated financial organizations, in urban and rural settings, some better known, several virtually unknown outside of their markets. Despite stark differences in organization, funding sources, uses of subsidy (all employ subsidy of some type), markets served and other factors, these institutions share some common characteristics. Each institution was created to address local financial services and/or community development needs, and each has had an impact on its immediate surroundings. They serve as economic anchors, clear the way for or facilitate other community assets, and improve community economic health.

We selected institutions based on various baseline criteria; some exhibit more than one criterion. The first was CDFIs that have undergone substantive changes over the past four to five years. That describes most of the group. A second criterion was the originality, strength of execution, and bottom-line impact of long-term strategies that programs are using to pursue sustainability, including (but not limited to): advocacy and marketing, mergers and acquisitions, expanding target markets of borrowers, new service offerings, (greater) cross-subsidization, pricing strategies, use of new technologies, partnerships, outsourcing, and collaborative business models. These strategies are documented in detail across the case studies. Finally, at the most fundamental level of criteria, we assembled a very diverse group of approaches, contexts, strategies, and programmatic activities.

On a somewhat more subtle level, we sought organizations that have become more sustainable by improving their current business model. For instance, smaller banks do not have as wide an array of (business model) options as unregulated loan funds, and generally favor a particular loan type, such as commercial loans secured with real estate. Execution becomes the most important aspect, and the ability to establish and own a local niche.

Conversely, we also sought organizations that had changed their business model to sustain and grow. One of the organizations we interviewed but did not ultimately select for a case study has moved into more policy work, and places less emphasis on lending and more on facilitating regional economic development. On another level, one of the changes we observed across virtually all CDFI types is that of charging origination, service, and other fees—once considered taboo—and pricing loans and other services to a reasonable margin, versus breaking even (or worse) for mission's sake.

Mergers and consolidations have been frequent among CDFIs—most notably among credit unions. We include a credit union that is the result of a merger, and a loan fund that represents a successful merger. The same credit union is also a part of an important and effective regional collaboration, still another important strategy to foment not only organization sustainability, but broader impact, stability, and in some cases involvement in policy development and implementation.

The subject group also includes CDFIs that rely heavily on subsidy and build into their business model as a central task the means to obtain and deploy subsidy. Others work more toward profit goals, and have moved in new directions to rely less on subsidy. There are many ways to look at these institutions beyond their organizational structures, mission, goals, and results, however. Following, and prior to the actual case studies, are some brief illustrations of a few of these criteria.

Among the regulated institutions, banks and credit unions, the best capitalized among the four, Generations Community Credit Union, is the least profitable, and arguably the most frail and dependent on outside support; it has by far the lowest assets of the group. Generations came about through consolidation of seven extremely small credit unions, with virtually no chance of long-term self-sustainability individually, and formed alliances with key regional partners to extend vital financial services to rural poor and immigrant communities that would otherwise have none. A substantial (annual) state budget commitment, which funds services for a group of regional credit unions through an intermediary, demonstrates a regional policy commitment to promoting participation in the banking and financial system among the disadvantaged. A unique partnership with larger and more solvent partners keeps a nine-branch credit union, with less than $20 million in total assets, in business as it struggles toward profitability serving the region's least profitable markets.

Legacy Bancorp, a one-branch institution in a marginal Milwaukee neighborhood, initially faced skepticism and doubt from potential early investors, and indeed had a rocky start after introducing mission-oriented products that very quickly proved unprofitable. In eight years of funding primarily mission-focused commercial loans, the bank has grown its assets roughly 20-fold, more recently adding non-mission, high-quality assets (loans); and from a non-factor with poor financial results to a disciplined and highly effective local economic engine on Milwaukee's north side.

Regulators view CDFI banks through a slightly different prism, in many cases holding them to higher profitability standards stemming from outside loan guarantees or lower-cost capital. CDFI banks also draw some additional scrutiny due to outsized, often termed "socially conscious" deposits, as the exit of a large depositor can generate an immediate liquidity problem. As individual CDFI banks maintain and manage relationships with large depositors over time, regulators gain confidence in their ability to manage liquidity, a key rating factor in bank examinations. There are many issues affecting sustainability in the highly regulated banking sector, not least of which is balancing mission and profit goals.

Loan funds account for the largest swath of CDFIs, and have a wide array of business models and widely varying definitions of "sustainability." Because of this variability it is difficult to draw conclusions for the field as a whole from four case studies. However, each of the loan funds illustrates important details to the emerging picture of sustainability in the field. For example, ShoreBank Enterprise Cascadia, a relatively recent merger of ShoreBank Enterprise Pacific and Cascadia Fund, adds a further dimension to the mission/profit balance, adding environmental considerations to each transaction.

While there are many considerations to sustainability, one additional point is that a small body of research suggests that loan funds must reach sufficient scale before they are attractive financial partners to large, mainstream banks, their principal funders. Large banks lean toward intermediaries that have the expertise and organizational depth to open new credit markets—charter school lending for example—produce regional impact, effectively align the interests of public and private sector funders, make efficient use of funds, and generate at least some profit. Creating some headwind for CDFI scale is that to remain *sustainable* entities, loan funds must manage growth carefully, and consider the organization-level ramifications of new business lines and increased staffing on organizational sustainability. A dearth in recent years of unfettered capital for CDFI loan funds has limited prospects for organic growth, a condition that requires more creativity and strategic thinking on the part of loan fund managers.

Justine Petersen

I. Overview

Justine Petersen Housing and Reinvestment Corporation, based in St. Louis, Missouri, is a nonprofit loan fund with a subsidiary for-profit CDFI subsidiary. Since its founding in 1997, the organization's original mission as a housing institution has expanded. It now has a broad-based asset-building agenda focused on low- to moderate-income families and individuals. The organization focuses on:

- increasing home ownership opportunities,
- developing enterprise opportunities,
- building credit and improving credit scores, and
- strengthening financial literacy and financial skills.

Its clients are: 80 percent inner city residents, 81 percent African-American, 80 percent low- to moderate- income, and 68 percent female-headed households. It targets low-income and transitional neighborhoods in St. Louis, as well as across the river in East St. Louis, Illinois.

Justine Petersen offers home ownership counseling, operates as a mortgage broker and real estate agent to connect clients to homes and mortgages, and provides home "retention" loans to help stressed families maintain their homes in difficult times. It provides business consulting and microloans to emerging entrepreneurs under its nonprofit and for-profit loan funds; it offers credit counseling and credit builder loans to improve clients' financial position, and offers IDAs for home and financial literacy counseling. The Executive Director sits on the board of the Credit Builders Alliance, and provides office space and services for two of its staff. Its close engagement with the Alliance reflects its strong belief that an individual's credit score is the person's key financial asset, as it defines access to, and the terms under which, credit is made available. Since its inception in 1997, Justine Petersen has:

- Provided one-on-one credit-building services to 15,000 families.
- Assisted 3,500 to purchase homes, accessing $340 million in safe and affordable mortgage loans.
- Originated $3.9 million in microloans to 700 microenterprises.
- Opened 1,200 IDA accounts and facilitated 600 matched withdrawals to asset purchases.

In 2007, it served 1,441 individuals across all its programs. The organization:

- Assisted 623 individuals with credit counseling toward home ownership, helping 89 individuals gain mortgages.
- Counseled 88 clients in foreclosure and originated 19 loans to stop foreclosures, and counseled 49 seniors on reverse mortgages.
- Originated 207 microloans valued at $1.3 million with an average loan size of $6,442 under the SBA microloan program.
- Opened 123 new IDAs, and helped 206 make matched withdrawals valued at over $550,000

- Made 145 additional loans from its CDFI—Great Rivers Community Capital—for consumer needs (car loans, home improvements), debt consolidation, downpayment assistance, foreclosure prevention, and some microenterprise loans.

Its 2007 (unaudited) financials indicated that the organization has total net assets of $693,454.38 out of total assets of $4,447,159.82. Its performance ratios reported to the CDFI Fund are as follows:

Table C.1: Justine Peterson Performance Ratios

Source: Justine Peterson.

Financial Health and Viability - MPS Ratios	Justine Petersen/ Great Rivers Consolidated 2005	Justine Petersen/ Great Rivers Consolidated 2006	Justine Petersen/ Great Rivers Consolidated 2007
Net Asset Ratio	11%	16%	16%
Total Financing Capital	$1,854,096	2,446,391	3,775,664
Deployment Ratio	55%	68%	51%
Net Income	$ 236,731	648,950	279,000
Self-Sufficiency Ratio	93%	59%	79%
Operating Liquidity Ratio	38%	157%	89%
Current Ratio	168%	224%	328%

Its unrestricted net assets have jumped from $129,632 in 2006 to $677,641 in 2007, with the change largely attributed to the acquisition of a new building.

Over the last several years, the organization has grown its lending and other services. It has embarked on a scale-up strategy for its microlending. It has also purchased and is renovating its own building, centrally located between the upscale arts district and the distressed northern neighborhoods of the city. Besides providing a new and spacious home for staff, the building is designed to create a more public face for the organization, locate it closer to neighborhoods in need while increasing its general accessibility. The building will also provide rental space for several businesses, and includes incubator space for emerging microenterprises. The building represents the optimism and drive of the organization to expand services and increase its impact in communities across its region.

II. Sustainability Strategy

Justine Petersen prides itself on its ability to grow (and increase its sustainability) through its capacity to generate fee-for-service revenue and to excel on performance-based grants and contracts. As its financial statements show, it charges interest, origination, and loan processing fees on its loan products. It generates brokerage fees from its work connecting clients to mortgages; its real estate license allows it to locate and broker homes. It generates rental income from rental properties that it has developed. It has demonstrated a capacity to grow its microlending under the SBA Microloan program, and has been rewarded with larger technical assistance awards because of its overall performance. Other recent grants and contracts with performance criteria have also been executed well.

While the organization has advanced its sustainability using these strategies, its current position also demonstrates the limitations implicit in its path to date. Its new strategic plan recognizes that the collapse of the subprime market increases the opportunity and need to provide credit education and home ownership preparation to families that previously would have turned to the subprime market. Rising foreclosure rates indicate the need for more default/delinquency counseling to help people maintain their homes if at all possible, and if not, to preserve equity and avoid the negative effects of foreclosure. The growing Latino population (up 92.2 percent since 1990) and refugee populations, with limited access to mainstream financial markets, present another opportunity for microlending and other asset-building services. The organization has set as its goals by 2010:

- A 200 percent increase in microloans from 205 in 2007 to 570.
- Connecting 600 families to safe, affordable mortgage capital.
- Broker 250 home purchases annually by 2010 (up from 143 in 2007).
- Establish a foreclosure prevention loan fund of $150,000.
- Individually counsel 1,000 families in the St. Louis Metropolitan area annually, increasing their credit scores.
- Increase the number of second mortgage and credit builder loans from 130 in 2007 to 400 originated in 2010.
- Increase affordable housing and commercial space including the development of 30 residential homes.

And it has determined to increase its sustainability as it does so. The intention is to achieve 100 percent financial self-sufficiency on its financing activities while continuing to raise subsidy for its IDA program and what it considers its other value-added services: credit counseling for homeownership and business technical assistance to micro-borrowers. To do this, however, requires that Justine Petersen:

- *Generate more loan capital.* Currently, the majority of its loan funds are borrowed funds. The bulk comes from the SBA Microloan program, and the organization is close to the maximum allowable amount of $2.5 million. (The organization has currently borrowed $2.1 million from the SBA.) Justine Petersen projects a need for an additional $5 million in grant and borrowed dollars. It also projects a need for $250,000 in equity, and approximately the same in matching funds for its IDA program. At the same time, the institution is highly leveraged. $3.8 million in loan capital is borrowed from an array of sources at rates ranging from 1 percent to 8 percent. Its own loan capital is a modest $300,000.
- *Generate more earned revenue.* The organization sees its primary source for more earned revenue from interest and fee income on its loan products. The SBA Microloan program restricts the institution to a spread of 7.75 percent on loans that average $6,500. Funds available to Justine Petersen under its Great Rivers CDFI offer greater flexibility, but are limited in amount ($700,000). While the institution is fairly efficient (its operating cost rate of 0.21 puts it among the leaders in terms of microlending efficiency), current interest and fee income cover only 42.2 percent of its operating and financing costs of microlending, and do not match up with the risk implicit in its borrower profile. The organization estimates that a 12.5 percent spread can go a long way to cover its costs. Further, the institution notes that

its competitors in St. Louis ―largely payday lenders—charge an average interest rate of 422.26 percent.[42]

A second potential source for increased earned revenue is its mortgage brokerage service. It is looking at tapping socially responsible middle- and upper-income families to use its services, using earnings from that "product" to cross-subsidize services for the harder to serve.

- *Build a larger, local donor base.* The institution has largely sourced its grants from federal and state sources, and has limited penetration into the local philanthropic community, corporate or foundation. Generating greater equity for the organization and loan capital for its "Emerging Markets Loan Fund" will demand increased visibility and appreciation in the local market. Justine Petersen has already taken several steps to build this donor base including: working with development consultants to complete an analysis of their development capacity and to create a development plan, launching a rebranding campaign, and working to introduce itself to potential partners and funders in its local market.

In sum, the organization's sustainability strategy is based on a business model that expects self-sufficiency in lending, efficiency in product delivery, and high performance for its stakeholders. It is also based on the expectation that its seriously disadvantaged borrowers not only can, but should pay its full cost of lending, seeing that Justine Petersen's costs represent a veritable bargain against the alternatives in the St. Louis market. With a seriously disadvantaged client population —with substantial needs for one-on-one counseling services—the expectation is that subsidy for these value-added services is warranted long-term.

III. Results to Date

Justine Petersen's overall accomplishments have been described above. In addition, its worth noting the quality of its portfolio. As of the end of 2007, their microloan portfolio at risk was 6 percent and their loan loss rate was 2 percent. The self-sufficiency rate for their microlending, while still at less than 50 percent, puts them among the top performers of those tracked under MicroTest, The Aspen Institute's performance tracking system for microenterprise programs. They achieve these results while insisting on using a highly personal, relationship-based lending model with customers. Their capacity to execute their planned sustainability strategy is yet to be determined. They have just begun to implement the components that are intended to move them in the direction of their goals.

IV. Challenges/threats

Their greatest challenges are the obverse of their strategy. Can they raise the capital they need on terms that allow them to increase their spread and still remain viable in their customers' eyes? Are they right about the high demand in their market for the full range of products that they offer? Can they develop the capacities they will need to penetrate the Latino market? (The organization needs to bring in staff with the right language and cultural skills, and develop credibility in this new market. They have taken the first steps in this direction by joining the Hispanic Chamber of Commerce.) Will the worsening economy further increase the risks in their portfolio, and how will they address maintaining portfolio quality? How long will their development strategy take to build

[42] McClure, Eric , Report to General Assembly pursuant to section 408.506 RSMO, (January 1, 2007): cited in *Justine Petersen Emerging Markets Loan Fund:Business Plan, 2008-2010,* Retrieved on February 24, 2008 http://www.missouri-finance.org/Contribute%20Documents/2007PaydayLenderSurvey.pdf..

the financial support they need to grow their services? Justine Petersen management recognizes that this development campaign will require patient and systematic work, and appear ready to pursue it over the long haul. But the pace at which they can open new sources of support will condition their capacity to achieve the ambitious targets they have set for themselves.

V. Lessons for others

At this stage, Justine Petersen's experience suggests several lessons for others:

- *The value of a broad mix of financing products and asset-building strategies:* While the organization achieves only 42.2 percent in terms of the financial self-sufficiency of its microlending, it reports 79 percent self-sufficiency overall. This is due to the array of fees and interest income generated by the various products discussed above.
- *The need to price in line with costs:* Justine Petersen has not shied away from charging its borrowers origination and processing fees, as well as the maximum interest rates it can, as conditioned by its primary loan source, the Small Business Administration. If liberated from the restrictions imposed by the SBA, the organization would cover even more of its costs while still offering a reasonably-priced product to customers with little or no access to (sensible) alternatives.
- *The importance of developing a local, committed funding base:* Justine Petersen's self-reliant focus on first, earning a living through brokerage fees and other sources, and then on competitive grants and contracts, has been successful to a point. But its need for greater loan capital (and on favorable terms), and for ongoing subsidy for targeted services has demonstrated that lack of attention to traditional fundraising has its downsides. Also, there is value in developing support that is less restrictive than current sources, and supports a strategy that can move towards both greater scale and sustainability with appropriate products and pricing.
- *Organizational structure as a vehicle for program growth and sustainability:* Despite its relatively small size, Justine Petersen has deliberately built an institutional structure that allows it to generate revenues in several ways, as well as offer multiple products and services with flexibility. This includes their nonprofit community development corporation, and their for-profit CDFI, Great Rivers.
- *The value of having the capacity to generate revenues in multiple ways:* Justine Petersen earns revenues from interest and fees on its loans, from its mortgage brokering and real estate brokerage businesses, and from its real estate management. It also will generate some revenue through space rental in its building.

Legacy Bancorp

I. Overview[43]

Legacy Bank's lending focus is small businesses (start-up and existing); real estate investors who purchase a wide variety of residential and non-residential properties to hold in their investment portfolio; and investors who specialize in rehabbing distressed non-residential properties in the

[43] This case study is based on an interview with Deloris Sims, President and CEO of Legacy Bank; Mark Norville, Chief Financial Officer; and Sally Peltz, President of Legacy Development Corp.

bank's target market. The bank was founded as a *de novo* in 1999 to "increase shareholder value by being a leader and innovator in the provision of financial services to … those who traditionally have been underserved…" Legacy is based in the central city of Milwaukee, but targets its lending to "Hot Zones" across the city—communities identified by the CDFI Fund with the highest levels of economic distress. It is the only bank in the state of Wisconsin designated as a CDFI.

Legacy Bank is a state-chartered member bank under the supervision of the Federal Reserve Bank of Chicago and the Wisconsin Department of Financial Institutions. Legacy offers a normal array of deposit accounts (direct deposit accounts, money market accounts, time deposits) with a focus on banking the unbanked and underserved populations, some single-family mortgages, and other consumer services, although it is not primarily a retail bank. Legacy's sustainability strategy rests on a combination of small business lending, non-residential real estate lending, core deposits to support growth, and the use of CDFI money from both the Bank Enterprise Awards and New Markets Tax Credit programs. Legacy also participates in large corporate credits as a means to boost profitability and further the safety and soundness of the bank. This is not the same strategy that Legacy pursued at its inception. The initial strategy was to focus on small business and commercial lending along with retail products to bank the unbanked. It began with a model that focused on controlling the costs of services to underserved markets by applying for Bank Enterprise Awards, a First Accounts Pilot Program Award, and Financial Assistance Awards. This strategy helped to offset the cost of services so that all segments of the neighborhood population could be served until the bank became profitable in the third year of operation.

II. Sustainability Strategy

Real Estate Lending

Earnings have been driven in large part by strong loan performance, specifically loans to non-residential real estate investors and rehabbers. About 90 percent of Legacy's portfolio is real estate and about 85 percent of that is commercial loans for which the underlying collateral is residential. Virtually all of Legacy's loan growth since 2005 has been in real estate-secured commercial loans, while straight commercial loans have been on the decline. The customer base represents all segments of the community, with a significant number of customers being from the community. The smaller investors are primarily customers who have not had the opportunity to use mainstream credit products and financial services. The larger investors are generally long-time property owners who purchase property to hold as investment or rehab and sell.

In many ways, Legacy is similar to other community banks in extending credit to borrowers with lower FICO scores. Legacy emphasizes the character of potential borrowers and generally has strong relationships with them. With a combined 50-plus years in banking, senior management understands that borrowers' credit scores do not always capture the borrowers' attributes. Management describes the bank's goal as helping businesses survive. Legacy adjusts loan payments for changes in seasonal businesses. It puts borrowers in contact with financial education professionals to help borrowers become more financially savvy. Management also mitigates repayment risk by following conservative underwriting guidelines, requiring borrowers to document all sources of cash-flow to cover their loans, pricing loans with a risk premium, and pursuing an aggressive loan servicing strategy. Legacy makes moderate use of federal, state, and local guarantee programs such as the U.S. Small Business Administration's (SBA) guaranteed loan program and the Milwaukee Economic Development Corporation's (MEDC) small business capital access program. Six percent of Legacy's portfolio is covered by SBA and MEDC guarantees.

Legacy also works with the Wisconsin Housing and Economic Development Authority business loan and home loan guarantee program.

Attract Brokered Deposits

Deposits have risen rapidly over the past five years, giving Legacy needed liquidity to grow its assets. The importance of this liquidity can be seen in Legacy's loan/deposit ratio. It was above 95 percent in 2005 and 2007. The largest deposit growth has been in time deposits of $100,000 and larger. Starting in 2005, the bank has relied on the brokered CD market for deposit growth. However, Legacy has been able to attract deposits from major corporations and foundations, with the largest deposit being $3.5 million. Many of these depositors are generally socially motivated, but some are also rate-sensitive and demand market returns. Legacy belongs to the CDARS network, which enables Legacy to offer FDIC insurance on deposits up to $50 million (much larger than the $100,000 FDIC insurance limit).[44] Large time-deposits have made up at least 55 percent of Legacy's total deposits since 2005. In contrast, core deposits (demand deposits, money market accounts, and time deposits of $100,000 and below) represented about 44 percent of total deposits in 2007.

Improve Governance

Legacy evaluates virtually every activity of the bank using a scorecard system to improve accountability and enhance performance. Goals and results for both managers and staff are reviewed for their impact on bank profitability, soundness, efficiency, best practices, and personal development. This system, while instituted as recently as 2007, represents the continuation of a shift in thinking that began in 2004 with the reorganizing and expansion of departments, and the recruiting of personnel with strong banking backgrounds to form the management team. The entire organization shifted its focus to managing the tremendous double-digit growth. The president exhorted the entire organization to "think like a banker." The double-digit growth resulted in changes from the original operating model, which was not always cost-effective due to the high cost of being a start-up; and the expense of serving underserved markets. Legacy began moving towards a model that was more cost-effective and efficient, putting great weight on monitoring costs. It has bought new software to help with risk management and gap analysis (asset-liability duration mismatch). The president, chief lending officer, sales manager, and chief financial officer hold weekly profit-margin meetings during which they assess pricing, yields on loans, the liquidity position and the cost of funds. The bank has created new positions to monitor loan performance, and it has set up a new system to work with an outside vendor to deal with past-due loans.

Access CDFI Funds

Legacy has received a total of $4.6 million from the CDFI Fund since the bank's inception, benefiting from every CDFI Fund program available except for the Native American program.[45] Legacy has used this money for a range of purposes. A significant part of the bank's initial

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[44] In 2004, Promontory Interfinancial Network joined with the Community Development Bankers Association to launch the "Banking on Communities" program, which tailors the CDARS program to CDFIs. For more information about how the CDARS program works, see http://www.promnetwork.com/

[45] In addition to a $1.5 million core capital grant in 1999, other funding has included a $528,000 Bank Enterprise Award (BEA) grant in 2001; $343,000 Treasury First Accounts Pilot Program grant in 2002; $1.1 million BEA grant in 2003; $100 million NMTC allocation (in partnership with Wisconsin Housing and Economic Development Authority [WHEDA])in 2004; $1.4 million Financial Assistance Award (FAA) in 2005; and a $120 million NMTC allocation (in partnership with WHEDA) in 2007.

capitalization was a $1.5 million "Core Capital" grant (now known as a Financial Assistance Award [FAA]). It has since used the money to pay for the design of the bank's housing and small business technical assistance programs, to make capital improvements, and to increase the bank's capital. The holding company, Legacy Bancorp, formed a partnership with the Wisconsin Housing and Economic Development Authority (WHEDA), bringing in two New Markets Tax Credit allocations. The first allocation of $100 million was used statewide with 70 percent of the allocation going to the bank's target market. Those credits have been used for real estate projects with neighborhood CDCs and other banks. Those projects included the redevelopment of vacant buildings to housing/retail mixed use along a formerly blighted corridor, relocation and expansion of Palermos Pizza to a hot zone creating an additional 50 jobs, restructuring and expansion of the nation's first female/minority owned Ponderosa Steak House, and the expansion of Lena's, the largest minority-owned grocery chain in the region. The Bank Enterprise Award (BEA) money is not an inconsequential part of Legacy's net income. The money amounted to a fifth of the value of net income in 2007, and was responsible for turning earnings positive in 2006. "Other non-interest income" ranged from less than $250,000 in 2004 to about $1.6 million in 2006.

Cross Subsidize Portfolio

Legacy's goal is to continue to attract higher-quality credits, "Level 1s and 2s" in its five-point rating system, to improve asset quality overall. These large "blue chip" loans are an effort to further diversify Legacy's portfolio and maintain a balance between high margin and small margin loans. They also provide the bank with the revenue to continue with its mission-focused lending. This is a cross-subsidization strategy in the spirit of the bank's dictum, "no margin, no mission." The bank recently participated in a $10 million loan to a large energy/utility company (the bank has a $4 million lending limit), and is working on an additional $10 million syndicated loan to another utility. These corporate loans currently account for less than 10 percent of Legacy's portfolio. Management is working to build up these loans to 10-15 percent of its portfolio by the end of 2008.

Act as Community Anchor

In Legacy's view, thriving neighborhoods are those with small businesses—those that hire locally and attract people who spend locally. Legacy's mission statement includes the goals of building small businesses, increasing home ownership, and developing the economic base of the community. By lending to small business owners, Legacy catalyzes other economic activity in the vicinity that further sustains the bank. Legacy is able to extend its reach in the community through affiliated nonprofits. Legacy Redevelopment Corporation, a $2.5 million loan fund formed in 2002, fills financial gaps on Legacy Bank deals and provides counseling and technical assistance to would-be bank borrowers. Legacy Midwest Renewal Corporation, established in 2003, constructs, owns and operates real estate projects, designating Legacy Bank a preferred lender for some of its deals. Legacy does have some competitors in the community. North Milwaukee State Bank, in business for over 30 years, serves a similar target market but with less of a focus on the commercial real estate side. Columbia Savings and Loan, just one block away and in business for over 75 years, has a core business of mortgage loans. Legacy has surpassed both of these institutions in the asset and earnings areas. Some very large banks have begun competing for Legacy borrowers that have already proven themselves at Legacy.

III. Results to Date

With assets of $184 million at the end of 2007, assets had grown by over 135 percent over a five-year period. Assets grew by an average of over 20 percent between 2004 and 2006, and by more than 12.5 percent in 2007. Loan growth was similarly robust. Net loans and leases grew by seven percent in 2007 to $145 million, following real growth of 36 percent in 2006, and more than 20 percent in 2004 and 2005. Legacy has been successful at getting loans out the door, demonstrated by its ratio of loans/total assets that has increased over time (except in 2007). Interest income surged by 30 percent in both 2006 and 2007. Legacy has also managed to stave off loan losses. Loan losses were below those of Legacy's peer group during four of the past five years, and loss reserves were stable, fluctuating between 1.4 percent and 1.8 percent (although 4.2 percent of real estate loans were 30-89 days past due as of December 2007, and 10.4 percent of single and multi-family mortgages were 30-89 days past due). Total deposits climbed by more than 80 percent over the period, which has also come with a rise in interest expense. Interest expense rose by 68 percent in 2005, 88 percent in 2006, and 36 percent in 2007, compressing Legacy's net interest margin (3.6 percent) below that of its peers in 2006 and 2007. Legacy ended 2007 with $1.3 million in net income, a 7 percent increase over the previous year.

IV. Challenges

Legacy's financial results raise at least a few questions about the ability of its core business model to produce consistent profits. Legacy's rapid growth in brokered CDs as opposed to growth in core deposits has led to high interest expenses, causing net interest margin to fall below its goal of four percent in 2006 and 2007. This shows the stresses of relying heavily on brokered deposits. The money flowing through "other non-interest income" has also tended to augment net income, but there is no certainty regarding the future of CDFI Fund awards. Counting these funds in the calculation of net income, net income fell in 2005, rose (by a substantial amount) in 2006, and rose again in 2007. Not counting these funds, net income rose in 2005, fell (i.e., it was negative) in 2006, and rose in 2007.

Another potential challenge relates to portfolio quality at a time when real estate markets across the country are losing value. In even the best of times, households in Legacy's service area do not have high levels of disposable income. The percentage of families living below the poverty line is more than triple that of the surrounding metropolitan area, and five times the percentage of the state of Wisconsin. Although credit losses have declined since 2005, Legacy has an above-average number of "Level 4" loans in its portfolio, the second lowest rating in its five-point system, and past-due loans (under 90 days) have increased. In addition, Legacy takes personal residences as security on its loans, and homes in low- and moderate-income neighborhoods have lost more value than in economically stable areas. Legacy prides itself on the fact that the bank did no subprime or predatory lending. Weekly loan committee meetings help to reduce the challenge of maintaining portfolio quality by reviewing and aggressively following up on problem loans. While it is unclear how the subprime crisis will affect borrowers going forward, the bank is preparing for whatever crisis may arise by increasing the loan loss reserve, tightening underwriting standards, and increasing financial management support to customers.

A third challenge that Legacy has overcome relates to the importance of corporate networks. When capitalizing the bank at start-up, the minority and women founders of the bank found themselves at a disadvantage in terms of leveraging corporate support in Milwaukee. The bank was perceived as a financially fragile institution, and many corporations eschewed the bank for fear it would fail. The founders quickly saw the value of having extensive civic, community, and corporate contacts to attract both shareholders and large depositors. Ultimately, the founders were able to leverage the contacts they had with the original capital coming from former small business and commercial customers (mostly minorities and women), other locally owned banks, a church; as well as community groups, foundations that served the bank's proposed target market, real estate developers, FannieMae, and the CDFI Fund. Management has continued to build on this network over time, but they recognize that creating a brand identity outside of their community is an important factor for growth.

V. Lessons for others

- Management recognizes that mistakes were made early on in assuming that they could provide products that were mission-oriented without having products to balance out the cost of the mission oriented products, and/or relying on grants and subsidies. They believe products must produce some profit, and are looking at ways to offer products that can be mission-oriented and profitable.
- Community and government relationships, including participation in state and city loan guarantee programs, leverage Legacy's resources and allow the bank to be more aggressive in its lending while still safeguarding its portfolio.
- Legacy is improving financial performance by better corporate governance. This includes instituting better controls on its operations, identifying cost centers and pushing a variety of functions "down the line" to middle managers who make decisions using quantitative methods.
- The bank has determined it must do more business with mainstream customers and borrowers in order to grow. Originating and participating in large loans to high-quality borrowers provides Legacy with better cash flow that allows Legacy Bank to continue its mission.
- Legacy's mission statement states that its goal is to increase shareholder value. The bank has paid dividends (through the holding company) since 2004. Management cannot predict when shareholders may want to cash out, but expects that they will want a reasonable return on their investment and at some point will want to cash out. Thus, the bank recognizes it has a mandate to provide financial returns to shareholders.

University National Bank

1. Overview[46]

University National Bank has a mission to be the leader in improving its urban community. It develops financial products and services that give neighborhood residents opportunities to access capital and financial services. University's niche is small business developers and rehabbers—customers who buy distressed properties, make improvements, and rent or resell them. The bank is located in the Thomas-Dale neighborhood of St. Paul, Minnesota (a.k.a Frogtown), and low- and moderate-income census tracts dominate the bank's assessment area. Management has been committed to serving the surrounding ethnically diverse community since purchasing the bank, formerly known as Meridien, in 1996. University was certified as a CDFI in 2001. It was the first bank in Minnesota to be designated a CDFI.

University's core business strategy is to originate and service loans and attract deposits from borrowers, the surrounding community, and socially responsible investors. It attempts to bolster

[46] This case study is based on an interview with David Reiling, CEO of Sunrise Community Banks, and Nikki Foster, Assistant Vice President of Corporate Administration.

consumer deposits through products and services geared toward unbanked households in the area. It has strengthened its performance by cultivating loyalty from residents in the surrounding neighborhoods, improving efficiency with the consolidation of its sister banks into a single holding company, and using subsidies. University is regulated by the Office of the Comptroller of the Currency and must comply with safety and soundness and consumer compliance regulations (although regulators may not use all of the same metrics for evaluating CDFI bank performance as conventional banks). Since University and its sister banks, Franklin National Bank and Park Midway National Bank, came under a single holding company in 2007 (Sunrise Community Banks), combined assets have neared $500 million.

II. Sustainability Strategy

Originate and Service Loans

University has developed a profitable lending niche in the rehab market. Three-quarters of the bank's loan portfolio consists of real estate lending, almost half of which is categorized as commercial (non-residential, non-farm) lending. Interest income and other fees on loans have contributed to steady increases in loan income for the past five years. University has also been able to achieve a high net interest margin relative to its peers. Although median income in the neighborhood is lower than that of St. Paul as a whole, the neighborhood contains one of the fastest-growing populations in the entire city. Going forward, management believes the marketing, underwriting, and quality of University's loans will benefit from technology transfer and shared lending procedures with University's sister banks. Park Midway is a high-volume SBA lender, adept with SBA underwriting principles. Each bank has adopted Park Midway's procedures for hiring and training small business lenders.

Pursue Low-Cost Deposits

University's approach to building deposits is to market itself both within and outside of the immediate community. The bank's two main sources of deposits are business customers and socially responsible investors (SRIs). Core deposits come from small business customers. Regarding SRI deposits, University has been successful in marketing its certificates of deposit via a wholesale Schwab platform through socially responsible brokers. University pays between ¼ to 1 percent below market on these certificates. It has collected about $13.5 million of its $95 million in deposits through this channel thus far. One of the main goals for 2008 is to launch a five-year, $75 million mission-related interest-bearing deposit campaign. University is also exploring the opportunities to work with SRI-sensitive financial advisors directly. Management believes that attracting outside deposits is a must for a bank that operates in an economically blighted area.

University is also interested in shoring up core deposits from the unbanked consumer segment. University is in the process of developing new platforms to lower the costs of financial transactions for people who do not ordinarily use the banking system, and thereby draw more of University's immediate community into its customer base. The current plan is to operate off-site kiosks (enhanced ATMs) that are accessible at all hours and offer products of particular value to unbanked consumers, such as lower-cost stored value cards and money orders. The bank is also launching a mobile banking card that provides secure payment functionality through a cell phone. University is relying on technology as well as its brick-and-mortar presence to win new bank customers.

Cultivate Neighborhood Loyalty

University's knowledge of the local area and its attention to personal relationships have engendered strong customer loyalty, which has tended to shield the bank from competition from larger institutions. University has reached out to the successive waves of settlers that cycle into its service area. University's customers include Hmong and Burmese (about 40 percent), African-Americans (about 20-30 percent), Somalis (about 10 percent), whites (20-30 percent), and Hispanics. University hires staff that speak the languages of the surrounding community. Nearly all depositors (about nine-tenths) request that their money be placed in University's Socially Responsible Deposit fund, including customers whose deposits are in non-interest bearing accounts. Despite consolidation, management has maintained the separate names and separate "brands" of each bank in part to preserve the organizational cultures and the affinity that customers feel with each institution. Franklin National, for example, operates in neighborhoods with high concentrations of African Americans. Park Midway serves a broad socio-economic range of customers including many immigrants. Management is planning to open a new branch in 2008 to focus on the Hispanic market (it will be a branch of Franklin National), and management is researching the creation of a branch or bank niche that focuses on the gay community.

Improve Efficiency

University has enhanced its net income by gaining better control over its expenses. In the wake of the recent reorganization, management has focused on standardization, infrastructure, and capitalization. Credit procedures, outreach methods, and loan operations have been standardized across the three banks. University, Franklin National, and Park Midway have moved their audit, administration, accounting, and information technology departments to the holding company. In the past year, the holding company has hired a new human resources director, a web developer, an additional internal auditor, and a cash management manager. Efficiency measures have already shown signs of improvement. "Other operating expenses" trended upward from 2003 to 2007, but personnel expense and occupancy expense have either trended downward or been flat between 2005 and 2007. In 2007, changes in personnel expense and occupancy expense saved the bank about $180,000 per year.

Deploy Subsidy

University faces higher lending costs than a conventional bank (loan sizes are smaller, and higher loan loss provisions are needed) and the process of attracting deposits is also more expensive (the local deposit base is smaller, many immigrants and minorities are unbanked, and lower-income households have lower deposits than higher-income households). The bank also incurs the high costs of innovation. Because there is no formula or local precedent for doing what the bank does, it is up to the bank to figure out what people want and how to deliver it. University compensates for these mission-related costs with outside subsidies. The money is added to University's capital base, which allows the bank to leverage more deposits and originate more loans. It uses CDFI money to invest in new infrastructure and to provision for loan losses. Since 2001, University Bank has received $3.1 million in awards from the CDFI Fund.[47] (University Financial Corporation received

[47] These include:

- $750,000 University Bank (CORE award, 2001)
- $165,750 University Bank (BEA award, 2002)
- $795,969 University Bank (BEA award, 2003)
- $395,000 University Bank (BEA award, 2005)
- $500,000 University Bank (BEA award, 2006)

$585,000). Franklin and Park Midway also received CDFI certification in 2006, and Franklin received $1 million in CDFI grants in 2006 and 2007.[48]

III. Results to Date

In the course of the past 11 years, University has gone from a $14 million institution to a $123 million one. Assets grew by 17 percent in real terms in 2004, but declined in 2005 and 2006. Asset growth rebounded slightly in 2007. These declines reflect a weakened housing sector. University wrote off more loans in 2007 than in the four previous years combined. It charged off almost 7 percent of its 1-4 family residential portfolio. Deposits also fell in 2005 and 2007. Net interest margins have remained strong relative to University's peers – 4.4 percent (of assets) in 2007 and 4.9 percent in 2004-2006, but interest expenses climbed by around 25 percent in both 2006 and 2007. CDFI money has also been an important contributor to net income. About a quarter of University's net operating income for the past few years has been non-interest income, some 40 percent of which is "deposit service charges" and the other 60 percent is "other non-interest income." This second category represents CDFI Fund Bank Enterprise Awards.

IV. Challenges

The weak housing market has had an especially negative effect on the bank. Rehabbers were unable to find buyers for their properties, and the quality of University's portfolio plummeted. Management believes that the subprime loan crisis set back University's investment work by 10 years.

Growing University's deposits poses another challenge. Non-core deposits (brokered deposits, CDs greater than $100,000, and borrowed money) accounted for 34 percent of assets in 2007, well in excess of the ratio at conventional community banks, and about 10 percentage points above the average across CDFI banks. These deposits can become a relatively expensive source of financing if investors demand market rates. University has managed to attract socially responsible investors who will accept below-market rates, but competition for socially responsible depositors is even stiffer than competition on the lending side. The bank has not always succeeded in keeping interest expenses in check, evidenced by mounting interest expenses in 2006 and 2007.

Tapping into the unbanked market is a further challenge. University is not new to this struggle. In its early years, it developed a program to compete with check-cashing services in the neighborhood; and in the early 2000s, it instituted a stored value card. Neither of these attempts worked particularly well. University is trying a different approach in 2008 by leveraging immigrants' and other unbanked customers' widespread familiarity with cell phone technology, and limiting roll-out of the kiosk program until the bank can determine what products are most in demand. University may also be able to attract more consumers by adding consumer mortgages to its portfolio to recapture some of foreclosed properties before they fall into disrepair.

- $500,000 University Bank (BEA award, 2007)
- $585,000 University Financial Corporation d/b/a Sunrise Community Banks (CORE award, 2006)

[48] $500,000 Franklin Bank (BEA award, 2006); $500,000 Franklin Bank (BEA award, 2007)

V. Lessons for Others

- Management would have taken the same steps to improve efficiency whether or not the banks were CDFIs. Financial strength and sophistication are needed to survive in the current regulatory and competitive environment.
- University integrates subsidy into all aspects of its work. Subsidy is embedded in the use of loan guarantees, attracting deposits from socially responsible investors, and deploying CDFI-funds for loan loss reserves, capital, or investments in infrastructure.
- Subsidy is needed because innovation is expensive—many of the ideas and methods implemented by management are based on concepts that have never been tested elsewhere, or have been tried, but in other forms, in other places, and with other customers.
- Management has its own perspective on sustainability. Sunrise's President believes that social entrepreneurship is the key characteristic for how the organization will survive in the long term. He believes that the qualities of a social entrepreneur at the helm—innovation and assimilation of ideas, in particular – are important factors for achieving sustainability.
- As University Bank operates under Sunrise Bank Holding Company, it may be more appropriate to study the sustainability of the consolidated group than University Bank alone.

Community Trust Credit Union

I. Overview

Community Trust Credit Union is a $48 million institution headquartered in Modesto, California, in the heart of California's Central Valley. Community Trust has been certified as a CDFI by the U.S. Department of Treasury and has been designated a Low Income Credit Union by the National Credit Union Administration. Community Trust was originally chartered as the Tri-Valley Growers Credit Union in 1961. It expanded its membership to include employees from other food processing plants and in 1983 changed its name to Food Processor's Credit Union. Employment in the food processing industry contracted during the 1990s. In 2000 and 2001, Food Processor's leadership decided that it had to specialize on a niche in order to survive. The credit union decided that its strength was serving the Hispanic market; most of its employees had Spanish-language skills and most of its membership was Hispanic. Food Processor's CU got approval for a community (geographically-defined) field of membership covering Stanislaus, San Joaquin, Tuolumne, and Calaveras counties, and re-branded itself as Community Trust CU.

Community Trust's target market is very-low to low-income, predominantly unbanked Hispanics generally with limited English skills, and including those without documents verifying legal alien status. The Central Valley's principal industry is still agriculture, with a per capita income about 26 percent lower than California as a whole and poverty rates about 50 percent higher than the national average. About 40 percent of the Central Valley's population is Latino with the majority (85.3 percent) having emigrated from Mexico. These immigrants generally work at a variety of agricultural labor and service jobs, and support a number of dependent children, as well as other family members. They are usually unbanked and lack basic financial education and skills. Language barriers and a distrust of institutions are significant impediments to use of mainstream financial services, and create dependence on expensive fringe alternatives for people's financial needs.

Between 2001 and 2007, Community Trust grew from $32 million to $46 million in assets, from 9,382 to 12,000 members, and added three branches. Community Trust offers used and new auto loans, home mortgages, unsecured personal loans, and Visa Credit Cards (through a vendor). On the deposit side, Community Trust has a fairly standard suite of demand and time-deposit products as well as ATM access, on-line banking, direct deposit, payroll deduction, debit card, and access to insurance products. While Community Trust retains a large number of food processing workers, over half of its membership is now employed in the construction industry. While Community Trust has taken a number of steps to improve its long-term sustainability, it remains vulnerable in an industry where it has been increasingly difficult for smaller credit unions to survive.

II. Sustainability Strategy

Because it is a relatively small credit union, the major threats to Community Trust's sustainability are competition and profitability. Community Trust's president has said that a large, well-capitalized financial institution could come in and capture Community Trust's market (through below-market pricing of deposits and loans) if it so desired.[49] Similarly, Community Trust lacks the economies of scale and access to resources that make it easier to sustain strong profitability.

Community Trust's basic sustainability strategy has been to grow. The major elements of its growth strategy are:

- Use of partnerships and relationships to build membership, deposits, and loan volume.
- A larger geographic footprint through new branches.
- A high margin loan product that can drive profitability.
- Economies of scale through a technology platform shared with five other credit unions.
- Creation of a Spanish-language call center to generate greater fee revenue.
- Use of subsidy to finance expansion and growth.

When Community Trust obtained its community field of membership, it sought to grow membership and raises deposits through outreach and education into the community―partnerships with schools, churches, nonprofit organizations, etc. It advertised on Spanish-language radio and TV, and appeared at flea markets. It also has partnerships with several used car dealers that it deems reputable and generates memberships by financing purchases at those dealerships. Its new name, "Community Trust," became its brand.

Branch expansions have been another strategy to grow deposits. Community Trust's first branch expansion was into the community of Riverbank, north of Modesto. Community Trust received a combined Financial Assistance/Technical Assistance grant from the CDFI Fund of $593,000 to help cover build-out, equipment, and operating expenses. The Riverbank branch opened in 2003 and has been successful; it now has $12 million of deposits. Community Trust's second branch expansion into Stockton was a major disappointment and financial drain on the CU. A partnership with a large Hispanic social service organization did not work out as anticipated and Community Trust's only presence now in Stockton is ATM service. That expansion was partially subsidized by a CDFI Fund Technical Assistance grant of $79,000.

[49] Interview with Joe Duran, Community Trust Credit Union, January 29, 2008.

A third branch, in East Palo Alto, has just opened in partnership with three large credit unions active in the San Francisco Bay Area: Stanford Credit Union, Addison Avenue Credit Union, and Patelco Credit Union. While this expansion has no CDFI Fund subsidy, the three partner credit unions are providing up to $150,000/year of operating support for three years plus $1.2 million of 0 percent interest deposits. (The business plan calls for the branch to be self-sufficient after three years.) Community Trust is optimistic that the East Palo Alto branch will succeed. Prior to opening, Community Trust spent about two and a half years working with a group of community leaders, primarily representatives of faith-based institutions, who wanted a credit union that was sensitive to their culture. Community Trust was impressed with the thoughtfulness of the working group and opened this branch with a much broader basis of community support than it had in Stockton.
As with all credit unions, Community Trust must be profitable in order to be sustainable. Community Trust's profitability has been driven by used vehicle loans (average interest rate of 10.5 percent), which constitute over 75 percent of the portfolio. Less credit-worthy borrowers get a higher-cost first loan priced at 15.9 percent, but these loans tend to roll off quickly (average 18 months) and the members graduate to a lower cost second loan. Home mortgages are about 16 percent of the portfolio. Conforming mortgages are sold immediately; non-conforming mortgages (about 30 percent of mortgages originated) are held. Community Trust retains loan servicing on the sold loans. Community Trust currently does not make small business loans, primarily because of a lack of liquidity.

Thus, Community Trust's current business model features lending with a high net interest margin. In 2006, Community Trust's net interest margin was a full two points higher than peer group, 5.96 compared to 3.96.[50] However, Community Trust's profitability is hurt by a high operating expense/income ratio, the product of high staff costs, which in turn is a function of the extra time it takes to serve its membership. In 2006, Community Trust's operating expense/gross income ratio was 70.91 percent, compared to a peer group ratio of 59.19 percent.[51] Its average share (deposits)/member ratio is also low, which further hurts its efficiency ratio. Community Trust's cost of funds has tended to run somewhat higher than peer group.

Community Trust has taken several steps to improve efficiency and generate more fee income. It is part of a CUSO with five other credit unions[52] that operates a shared, central core data processing system. Collectively, the six credit unions have about $280 million in assets and 41,000 members, and are looking to bring more credit unions onto the system. (The core system can serve 10 to 20 times the current volume of activity.) The CUSO enables Community Trust to have technology capabilities that it would never be able to otherwise afford. These include core processing, the lending platform, home banking, electronic loan application, audio response, cold storage, imaging, etc. The technology platform affects operating efficiency and also the services offered to members (such as internet banking capabilities). Community Trust estimates that the CUSO saves it between $70,000 and $140,000 per year compared to what it would spend on equivalent services obtained through a correspondent relationship.

[50] In 2007, Net Interest Margin was 5.62%; peer group data was not available.
[51] In 2007, the Operating Expense/Gross Income ratio was 64.83%; peer group data was not available.
[52] The other credit unions are: Allied Trades Credit Union (Stockton), Tracy Federal Credit Union (Tracy), Silverado Federal Credit Union (Angwin), Community Federal Credit Union (Santa Rosa), and Modesto First Credit Union (Modesto).

Community Trust also started a Spanish-language call center in 2007 to serve its customers and, ultimately, to serve other customers as a fee-based line of business. The call center should improve:

- Efficiency: lobby staff were having to handle up to a thousand telephone calls per day
- Quality of customer service: lobby staff can spend more time with customers plus the CU uses the call center to follow-up with customers.
- Deposit retention: through better customer service.
- Cross sales: lobby staff and call center have more time to educate customers about the full range of CU products and services and to cross-sell.
- Mission: more contact with customers to educate them about financial services and financial institutions.

Interestingly, Community Trust moved its *best* customer service staff into the call center, the ones who are strongest on the mission side. It felt that the call center would only work if it were staffed with the best people.

Community Trust is offering this Spanish language call center service to other members of its CUSO. At least one other credit union will go on to the system by summer 2008. Community Trust anticipates generating about $100,000 per year in fee income.

Over the long term, Community Trust's growth strategy also depends on "maturing" its membership – helping them to build assets and thereby increase the credit union's deposits and loan volume. Community Trust has developed its own version of a Credit Path© approach that fits its Spanish-speaking population and distributes a financial education curriculum that it developed called "Money Sense". It sponsors and promotes financial information seminars given by its community partners on a variety of subjects such as: budgeting, saving, checkbook basics, understanding credit reports, predatory lending, rehabilitating credit, identity theft and retirement planning. Community Trust takes the education and service missions of the credit union movement quite seriously. Although membership education is time consuming and costly, it is also an investment in the future sustainability of the credit union.

III. Results to Date

Community Trust had strong growth from 2000 through 2005. Total assets increased from $29.4 million to $50.3 million during that period and profitability, as measured by return on assets, was above 0.72 percent for all years except 2002 (0.26 percent). Its net worth ratio rose from 7.5 percent in 2001 to 10.1 percent in 2006. However, Community Trust struggled in 2006 and 2007. Total assets declined to $49.5 million in 2006 and $46.1 million in 2007. Profitability dropped to 0.38 percent return on assets in 2006 to -1.2 percent in 2007. The loan portfolio fell from $43.0 million in 2006 to $38.2 in 2007 and total membership slipped a small amount.

Community Trust's struggles reflect national trends for small credit unions as well as local economic conditions. Nationally, credit unions are being lost at the rate of about one per day, usually small credit unions being "acquired" by large ones. Locally, Community Trust has been hurt by problems in the construction industry. Community Trust's president, Joe Duran, estimates that at least half of its field of membership is employed in the construction industry, which is feeling the impact from the housing industry collapse. Modesto is in the top three cities in the nation in its foreclosure rate. Moreover, many of Community Trust's members are still employed in the agriculture and food processing industries which in 2006 were hurt by weather problems.

The economic issues affecting Community Trust's membership income rippled through its loan portfolio. Community Trust charged off $450,000 of vehicle loans at the end of 2007. It had to allocate $1.3 million to its loan loss provision, as compared to $252,000 in 2006 and a previous high of $402,000 in 2004. The loan loss provision was the single largest factor in its negative profitability in 2007.

Community Trust's growth has also been constrained by capital (credit unions cannot raise outside equity) and deposits. Community Trust is adequately capitalized, 9.58 percent as of December 31, 2007, which represents considerable improvement over its capitalization of 7.50 percent in 2001. However, it lacks the capital to internally finance major expansion projects, and at its modest size, financing growth through retained earnings will be a slow process, even if Community Trust were to become extremely profitable (e.g., 1 percent ROA). Over the last two years, Community Trust has had insufficient deposits to meet its loan demand. At the end of 2006, its Total Loans/Total Shares (loan to deposit) ratio exceeded 100 percent, and it had to slow down its lending, which reduces earnings and profitability. The lack of liquidity also has inhibited Community Trust from diversifying its lending, such as by offering small business loans.

In sum, Community Trust's sustainability strategy produced positive results from 2001 through 2005. In the last two years, growth and profitability have been hurt by several factors that ultimately trace back to local economic problems detrimentally affecting the finances of its membership.

IV. Challenges/threats

Several of Community Trust's major challenges and threats have already been identified: local economic conditions, capitalization, loan portfolio quality, high operating costs, and liquidity. Community Trust has been able to take steps to meet some of these challenges. Operating expenses in 2007 were about $100,000 less than in 2006, principally through reductions in staff cost. Community Trust has sought to improve liquidity by recruiting non-member deposits (primarily from banks and other credit unions) and deposits from nonprofit organizations. Non-member deposits rose from zero in 2005 to about $800,000 in 2007. To capture deposits from nonprofit organizations, Community Trust rolled out a new "Liquid CD." This product is a year certificate, priced about a quarter point above market but which the nonprofit can access at any time if it needs liquidity. Community Trust has sold about a dozen of these CDs, most between $60,000 and $100,000. In marketing its Liquid CD product, Community Trust has also been able to strengthen relationships with potential nonprofit partners and to further educate them about the value a CDFI can add to its community.

On the lending side, a new niche has opened up for Community Trust because of the credit crunch precipitated by the subprime mortgage crash. Mortgage lenders in the Central Valley have become so conservative that Community Trust has been making conventional 80 percent loan-to-value mortgages to borrowers with A-grade credit. Since the loans are sold the same day to another credit union, they do not strain Community Trust's liquidity but Community Trust is able to earn the fee income.

There are no obvious solutions to solving the capitalization (equity) side of the growth challenge. Thus far, Community Trust's growth has been financed largely through grants, primarily from the CDFI Fund. The East Palo Alto expansion represents a somewhat different model: a partnership with large credit unions who contribute low-cost deposits plus operating subsidy. Other possible solutions to the equity challenge are more draconian: to become a part of a larger credit union or to convert from a credit union charter to a bank charter. Otherwise, growth will continue to be capitalized through retained earnings.

Community Trust also faces a set of challenges that relate more to staffing rather than to finances. Community Trust's major competitive advantage is its ability to serve a less sophisticated Spanish-speaking customer base. Of its 44 employees, 35 are bilingual/bicultural. However, personnel costs are probably the greatest barrier to profitability. Therein lies the dilemma. Its mission and its strongest competitive business position are based on a high-cost model. In addition, Community Trust has a philosophy of compensating its employees well, with a strong benefits package and erring on the side of keeping employees at full-time instead of bumping them down to part-time. As a result, staff retention is excellent but it comes at a cost.

When asked where he would like Community Trust to be in five years, Joe Duran hesitated, and then said "$250 million." When asked where he hoped Community Trust would be at the end of this year, he said that he hoped Community Trust would be profitable at 15-20 basis points and that they would know their "pathway"—i.e., they would be clear about their strategy for succeeding in the future. The competitive environment has become so much more difficult in the last several years and it has become correspondingly difficult to see the pathway to sustainability.

V. Lessons for others

The most important lesson from Community Trust is its use of collaboration and partnerships. Its CUSO is a partnership that continues to grow in members and scope of services provided. Its East Palo Alto expansion is a partnership with community institutions and with three large credit unions. Community Trust's marketing strategy is based on partnerships (from churches to community-based organizations to used car dealers).

To summarize, Community Trust recognized seven or eight years ago that it would have to re-invent itself in order to survive in a changing and more difficult environment. It defined a strategy for growth and survival (or sustainability) and, with the exception of the Stockton expansion, executed the strategy well. With the exception of the last year, its quantitative indicators of sustainability—balance sheet and P&L numbers—are stronger than 2001. Nevertheless, it remains vulnerable. It illustrates the dilemmas that small, mission-oriented credit unions with low-income memberships face in today's environment.

ShoreBank Enterprise Cascadia

I. Overview

ShoreBank Enterprise Cascadia (SBEC), formerly ShoreBank Enterprise Pacific (SEP), was jointly founded in 1995 by ShoreBank Corporation, a community development bank, and Ecotrust, an environmental organization. Enterprise Cascadia's founders envisioned a new kind of development institution that delivered economic, social, and ecological outcomes in the rural coastal areas of Washington and Oregon states. Enterprise Cascadia engages in a wide range of programmatic activity (from development and roll-out of new value-added food products to asset-building services for Latino immigrants), but its core business is lending to small businesses and community facilities. In 2007, ShoreBank Enterprise Pacific merged with Cascadia Revolving Fund, a loan fund serving all of Oregon and Washington. The new, merged organization now has nine offices and $32 million of assets on its balance sheet, plus New Markets Tax Credit allocations that total over $40 million.

From its inception, SBEC has looked at earned income ratio, arguably the single most important indicator of financial sustainability, as a meaningful metric. This orientation towards financial sustainability results partly from its affiliation to a regulated banking institution. However, SBEC was also profoundly influenced by the Opportunity Finance Network's 2004 annual conference entitled "Grow, Change or Die." At the time, SBEC was a moderate-sized loan fund of about $10 million in assets and fit the profile of a CDFI that would be most vulnerable to extinction. Starting in 2005, SBEC comprehensively re-engineered the organization so it could grow, change, and not die.

The transition to a more highly self-sufficient CDFI was difficult for SBEC because of its underlying business model and its philosophy and approach to community development. Its business model, which is prevalent in the CDFI field, is characterized by:

- High touch and customization of product to borrower needs.
- Intensive services to borrowers.
- Special initiatives, heavily dependent on grant subsidy, to reach highly disadvantaged populations and markets.
- A direct, "one-by-one" sales approach that made minimal use of outside partners to help deliver products and services.
- An earnings model that is highly dependent on "rate spread" for revenues.

This business model is consistent with SBEC's community development philosophy, which places relationships and strategic leadership at the forefront rather than loan transactions. SBEC believes that community development is a process, that a CDFI must engage and be credible with community leadership, and that positive change happens by finding the right partners, building relationships, and catalyzing new projects and activities. SBEC believes that lending is part of the change process but it must be done in the context of community engagement and strategic leadership. SBEC places as high a value on all of the non-lending work it does with customers and stakeholders as it does on making and servicing loans. In other words, SBEC's community development approach rules out the most obvious pathway to self-sufficiency: a CDFI transforming itself into a highly efficient, highly standardized,transaction machine. On the other hand, without adopting at least some of the elements of the highly efficient transaction machine, SBEC could not reach its goal of becoming more financially self-sufficient. Thus, SBEC's pathway to greater sustainability has two aspects: 1) the changes to the business model to become more sustainable; and 2) its efforts to maintain balance between mission and business.

II. Sustainability Strategy

SBEC's sustainability strategy has five elements:
Greater operating efficiencies achieved through strategic growth in portfolio size, geographic footprint, and total assets.

- Greater productivity and cost control through use of technology.
- Mass customization.
- Fee income.
- Smart subsidy.

SBEC's first assumption is that economies of scale exist in the nonprofit loan fund industry and, therefore, that growth can aid and abet greater efficiency. This assumption is compatible with SBEC's commitment to mission, because institutional growth also makes greater impact more achievable. The first leg of SBEC's growth strategy was geographic expansion, opening additional offices along the Oregon and Washington coast. SBEC was created as a rural development organization with a target geography of the Oregon and Washington coast. Since its community development philosophy demands that its staff be strongly involved in their communities, SBEC does not want to originate and serve a remote loan portfolio—lending by long distance. To have local presence up and down the coast, SBEC has staffed four new rural offices since 2004.

While the new offices have been one factor in creating more deal flow, SBEC has taken additional steps to grow its portfolio. Prior to 2004, SBEC had experimented with a "hunter-skinner" approach to lending. This involved staffing its field offices with community development generalists who would feed deals to a small lending staff housed at its Ilwaco, Washington headquarters. The model did not work well, and SBEC now puts seasoned lenders out in the field. The second step has been a gradual shift to larger deals with longer terms. Through most of its first 10 years, SBEC's core lending product was a \$50,000 - \$150,000 small business loan for equipment and working capital with a four- or five-year term. SBEC has shifted towards more real estate-based lending, including loans to nonprofit, tribal, and governmental entities for community facilities such as health clinics. The loans are larger and stay in portfolio longer. Two New Markets Tax Credit allocations have accelerated SBEC's movement towards larger loans; it can now make investments of several million dollars or more. Finally, ShoreBank Enterprise Pacific consummated its merger with Cascadia Revolving Fund in early 2007. The merger brought \$12 million onto SBEC's balance sheet. Thirty-five percent of those assets were in loans and the balance in cash; 75 percent of that cash was deployed as loans within six months. The merger also brought additional offices in the region's two major metropolitan markets, Seattle and Portland.

With this geographic expansion and portfolio growth, SBEC has had to make considerable investment into its technology and operational infrastructure. SBEC describes its operating model as "HUB and Spokes" where HUB is the back office, in Ilwaco, and spokes are the branches (field offices) in target communities. The components of HUB are information technology, portfolio management, finance and accounting, operations, human resources, and compliance. At the heart of HUB is a technology platform that can be accessed by and serves all of the field offices. This platform includes web-based applications for (1) relationship management (CRM); (2) portfolio management (Nortridge); (3) accounting (Great Plains); (4) credit analysis (Moody's), (5) human resource management (Performance Impact); and (6) loan documentation. An intranet (Share Point) functions as a shared platform for communication and collaboration. Lastly, SBEC rolled out an on-line loan application and underwriting capacity in 2007, which it expects to be fully operational in 2008. HUB makes operating a decentralized, nine-office system possible. The web-based applications improve operating efficiency and somewhat reduce the amount of face-to-face contact (and the costs of driving time) that is necessary.

Mark Pinsky introduced the notion of "mass customization" at the OFN's 2004 "Grow, Change or Die" annual meeting. Its premise was that CDFIs could not reduce operating costs if every loan they made was highly customized and, thus, incurred high transaction cost. Prior to 2004, SBEC was probably at the extreme end of CDFIs that resisted standardization and highly customized its lending to each borrower and situation. Since the Grow, Change or Die conference, SBEC has moved towards creating standardized lending products that are highly customized to a need and a customer segment. The first standardized and customized product that SBEC introduced was a used vehicle loan guarantee for Hispanic immigrants offered in conjunction with several local banks. These loan guarantees are the antithesis of NMTC deals—small consumer loans to borrowers with limited or no credit history. The second mass customized product is a septic upgrade loan targeted to rural families who could lose their homes because their septic systems are noncompliant with water quality standards. Subsidized interest rates are available to low-income families. The loans are small (typically around $25,000), they reach low-income households, reduce water pollution, preserve personal assets, and support small businesses (system designers and installers). SBEC is able to cost-effectively deliver this product through several tactics:

- Standardization: the loan itself is a standardized product.
- Sales channel: the loans are "sold" not only by SBEC lenders but also by motivated third parties—code enforcement and septic system professionals—who refer customers to SBEC. In 2007, about 60 percent of loans closed resulted from third party referrals.
- Electronic loan application: Loan applications are filled out and submitted on-line.
- Low-cost underwriting: Underwriting is sufficiently standardized so that it can be done by lower-cost portfolio management staff rather than lending staff.
- Loss reserve: The loss reserve was funded by public agencies so SBEC does not have to book loan loss expense.

The septic system loan illustrates the methods by which SBEC plans to increase operating efficiency in its lending operation in the future: standardized product, third-party sales channels, on-line application, simplified underwriting, and subsidized loss reserve. These tactics will not universally apply across SBEC's portfolio but they have two important consequences: 1) They make small loans more cost-effective and "scalable"; and 2) the cost savings gained through efficiency gives SBEC the latitude to spend the staff time customizing mission-important loans that resist standardization.

A fourth element of SBEC's sustainability strategy is to generate more fee income and be less dependent on interest spread income. For years, SBEC has provided consulting services to businesses, nonprofit organizations, and units of government, but has never been able to make that line of business truly profitable. SBEC's new strategy is to align the consulting more closely to the lending, especially on real-estate projects, so that the consulting directly feeds the lending pipeline and moves those projects forward. New Markets Tax Credits and other off-balance sheet lending are more recent sources of fee income. In addition to the fee revenue, NMTC moves the loan loss provision off SBEC's income statement onto that of the NMTC partnership. Finally, SBEC is offering its lending competencies and operating platform on a fee basis to other, smaller non-bank lenders. It has a loan servicing contract (collections, cash management) in place with the Lummi Indian Nation revolving loan fund. It also offers full loan fund management services to smaller loan funds in Washington and Oregon that may lack staffing and systems. SBEC will grow this line of business over the next several yeas.

SBEC believes in the importance of subsidy. If SBEC were to reach a 100 percent earned income ratio, it will have abrogated its mission. SBEC's philosophy is that markets have to be changed in order to work better and that the process of changing markets requires subsidy. On the other hand, SBEC does want its core lending operation to be 100 percent self-sufficient and expects to reach that goal for 2008. It considers a 100 percent Earned Income Ratio on lending to be a reasonable expectation for investors. If operating subsidy were to go away at some point, investors should have confidence that the basic lending and portfolio management functions will continue.

III. Results to Date

SBEC judges progress towards sustainability primarily through quantitative financial indicators. The results in terms of these indicators are:

- Loans originated increased from \$4.8 million in 2004 to \$20 million in 2007, of which \$6.2 million was off-balance sheet. The target for 2008 is \$35 million.
- Total loans outstanding increased from \$8 million in 2004 to \$32 million in 2007, of which \$14 million was off-balance sheet. The target for 2008 is \$60 million.
- The Earned Income Ratio rose from 56.2 percent in 2004 to 78.9 percent in 2007. It is projected to be 81 percent in 2008.
- Personnel and other operating costs have declined from about 80 percent of total expenses in 2004 to about 70 percent in 2007. They are projected to drop to about 67 percent in 2008.
- Conversely, "balance sheet expenses"—interest expense, loan loss allocation, and depreciation—have increased from about 13 percent of total expenses in 2004 to 23 percent in 2007. They are projected to be nearly 30 percent in 2008.
- The operating cost per dollar of loans originated has decreased from \$0.33 in 2004 to \$0.16 in 2007. It is projected to decline to \$0.10 per dollar of loans originated in 2007.
- The operating cost per dollar of loans outstanding has fallen from \$0.19 in 2004 to \$0.10 in 2007. It is projected to fall to \$0.06 in 2008.
- Portfolio income is still the dominant source of revenue. Fee income has increased in absolute terms since 2004, but accounted for about the same percentage of total income in 2007.

IV. Challenges/threats

SBEC has generally been successful thus far in growing the organization and strengthening its sustainability. Its greatest challenges have been in balancing mission and sustainability, and in human resources and organizational culture.

SBEC perennially struggles between innovation and standardization, and between the "soft" dimensions of community (at which it excels) and transactional efficiency. Its founders (the top two staff persons have been in those positions since inception) prided themselves on their innovation skills, and both have deep roots in old-school, place-based, proactive, relationship-driven community development. In their minds, community development is always much more than the financial transaction; lending helps the development process move forward but it is not the end in itself. This philosophy was much easier to maintain when Shorebank Enterprise Pacific was a small organization (12 staff or less) and the President and Vice President were operating on the ground, directly involved in the deals and activity.

SBEC now has over 30 staff and it is much more difficult for top leadership to push innovation by either doing it themselves or leading by example. To some extent, the innovation/standardization tension has been resolved structurally through the HUB and Spokes model. HUB, the back office in Ilwaco, is the source of stability, compliance, standard operating procedure, and production support. Spokes are the source of innovation, chaos, exceptions to policy, and strategic opportunity. The stability of HUB absorbs risk from spokes when the need for flexibility, exceptions, and innovation are justified by promised high impact outcomes. Regulating the balance between order and chaos, then, is the job of SBEC's management team.

While this solution sounds great in theory, two major problems emerge in practice. The first is that it has been difficult to instill the skills and judgment for innovation, customization, exceptions to policy, and broader community development work within the field offices. Most of SEP's staff in 2004 were community development generalists first and lenders second. Recent staff have tended to be more transaction-oriented lenders focused on production goals. SBEC invests time into mentoring the broader community development skills, but the learning process is slow. But without those skills in the field, SBEC cannot execute its place-based community development strategies.

The other side of the problem relates more to the longer-tenured staff who have seen the SBEC grow from a smaller, informal, more family-like organization to a larger institution characterized by standard operating procedures, technology-based communications, and hierarchy. SBEC has written several hundred pages of policies and procedures, but it is another task to get staff, who are accustomed to an entirely different operating style, to understand and comply. As the organization has grown, valued team members who were competent in their roles for smaller organizations have been found inadequate for a larger organization and have had to be replaced. SBEC invested heavily in an extensive process of change management over 18 months. Third parties were brought in to assist with many aspects of organizational development. The transition to a new organizational culture is happening but the process has not been easy.

V. Lessons for others

John Berdes, SBEC's president, cites four lessons for others.

- Stamina.
- Smart people around you—do not do it alone.
- Management: grow into management. Front-load everything: technology, strategy, management, governance, standard operating procedures, and everything else.
- Know what's important. Have a clear sense of strategy and tactics, and know when to say Yes and No.
- Delegate, and demand accountabilities within the delegations. Growth demands letting go of one's customary ability to know and direct the day to day.

Charlotte Mecklenburg Housing Partnership

I. Overview

The Charlotte Mecklenburg Housing Partnership (CMHP, or The Housing Partnership) is a private, nonprofit housing development and finance corporation organized to expand affordable and well-maintained housing within stable neighborhoods for low- and moderate-income families in Charlotte and Mecklenburg County, North Carolina. The organization uses multiple, reinforcing strategies, including community revitalization, housing development, housing and financial counseling, mortgage lending, and asset and property management in order to reach its goals.

The Housing Partnership grew out of civic discussions in the late 1980s on ways to address distressed inner-city neighborhoods and provide needed affordable housing to the area's growing population. Civic leaders wanted an institution that would be responsive to the demands of the marketplace. An attractive, high-quality housing product would be needed to spur additional private development in the neighborhoods. As a nonprofit, CMHP was also expected to leverage other sources of funding and support in ways the public sector could not.

The City of Charlotte and Mecklenburg County provide the core of CMHP's funding and development capital. CMHP receives an annual award of $2 million from the City of Charlotte. All but $150,000 of these funds are allocated to pre-designated development projects. Because the homes developed are typically sold for less than the cost of acquisition and development, project funds are rarely recovered. Mecklenburg County provides $100,000 annually for housing counseling services.

According to the audited financial statements for the FY2007, CMHP's revenue (excluding subsidiaries) was 58 percent grants and contributions, and 42 percent earned income. Most of the grant income went to support real estate projects and capitalize the mortgage pool. Only 11 percent of the grant funding was either unrestricted or was dedicated to the housing counseling program. Of the earned income, 38 percent came from developers' fees and 38 percent come from interest income, with the remainder coming from rental income, other income, and counseling fees.

II. Sustainability Strategy

<u>Services can complement each other programmatically and financially</u>
As The Housing Partnership has evolved, it has learned the value of providing comprehensive, complementary services to move its agenda. Community revitalization activities help to provide a good environment for its housing. Financial literacy and homebuyer counseling services produce a steady stream of qualified buyers for available housing. Quality housing helps to spur more mixed-income developments initiated by the private market, helping to provide a mix of people and backgrounds in the communities. Each component of the strategy makes the success of the other components more likely.

With the exception of the counseling work, all of the cost centers break even. The scale of development activity and real estate holdings is such that they are able to produce a steady stream of projects, and income, to support ongoing operations. They have been able to build fees into nearly all of their contracts, and are now taking a small ownership position in mixed-income, mixed-use developments in which they are a part.

Meet the needs of civic and housing customers

By design, The Housing Partnership operates in both civic and market environments, and their business model requires success in both. The organization has thrived in this environment by knowing and serving its customers with high-quality products and services.

The City of Charlotte is the largest source of subsidy for CMHP. While the organization has never taken this relationship for granted, a budget crisis in 2003 brought home to the organization the fragility of this public support. In response the organization now invests more purposefully in its civic business, setting up regular communications with key city staff and political leaders, providing independent third-party evaluations of its ownr performance, and even hiring a lobbyist to help the organization gain a presence in national affairs.

Because of its goal of building mixed-income communities, CMHP needs to build a high-quality product with market appeal to those with choices, even when the housing is marketed to those with few, if any, choices. As a result, its housing tends to be well-designed and managed. The Housing Partnership builds strong relationships in the communities in which it works, thus creating a high degree of ownership in the final product. CMHP also recruits neighborhood residents to work on its board of directors, to have a voice in the governance of the organization.

Use subsidies effectively

The Housing Partnership has strong incentives to use subsidies effectively. The City of Charlotte in particular is very clear about its expectations from its investments. According to Stanley Wilson, Housing Services Manager for the Neighborhood Development Key Business Unit, "We establish clear quantitative goals in our annual planning. We're always looking for leverage. It's one of the targets on our scorecard." Most of the subsidy that the organization receives is used to lower the cost of its housing products to make them affordable. By using subsidy more for product than operations, CMHP is better able to provide the quantity and quality of service its civic investors and their housing customers demand.

The organization uses a centralized model to provide development services in neighborhoods across the Charlotte area. This allows it to develop a critical mass of development work, and a growing body of knowledge, without duplication of overhead costs. CMHP contracts out for services, such as property management, that it cannot efficiently provide themselves.

Build knowledge and expertise to increase flexibility and value

One of the defining characteristics of The Housing Partnership is its competence. Its housing projects are well designed, executed, and managed. Executive leadership and second tier staff are of top quality. While CMHP's staff is not large, the organization has intentionally engaged a broad set of talents and backgrounds to implement its comprehensive approach in any neighborhood in the city. NeighborWorks has given the organization an Exemplary rating.

This competence was built over time, with the organization taking on what one long-term board member called "a series of challenges from the City." "We're doing projects we couldn't do 10 years ago," said Pat Garrett. According to Jim Burbank, a private developer and former board chairman, "the organization now has the capabilities, racial diversity, and product mix to work in any neighborhood in the city." CMHPy did this in part by being careful. "We're always worried about getting too big. We made decisions on deals that were logical and we made sure no one is overwhelmed," said Pat Garrett. The size of the staff is smaller now than it was seven years ago, having shrunk from 40 to 30, but everyone with CMHP felt the capacity of the organization had grown enormously.

Engage and leverage the civic sector

The City of Charlotte and the corporate leadership involved on the CMHP board place a lot of value in revitalizing the City's neighborhoods and providing quality affordable housing to the city's low-income residents. They have contributed money, complementary services, and their own expertise and connections to make that agenda happen.

A key factor in the organization's ability to develop its skill base has been the contributions of civic leaders serving on CMHP's board and volunteer committees. The board is made up of high-level executives from many of the City's major corporations. Civic participation is reported to be part of the DNA in Charlotte, and the organization has been very successful in recruiting new talent as needed. The President has also been described as "brilliant" in gaining the contributions of board members to the organization's governance and operations, especially as they have had to make shrewd decisions that balanced civic and business goals, and as they have developed the organization to take on new challenges. When the CDFI needed to address its accounting system due to organizational growth, a partner at Price Waterhouse Cooper was recruited onto the board to assist in the transition. Private developers want to lend their expertise to the organization because, as one developer commented, "it improves your standing the community."

Use networks

The organization has also been effective at accessing supports from national networks to move its local agenda. For instance, it has used NeighborWorks' secondary mortgage market as a way of more efficiently using its mortgage funding. It has used the joint purchasing power of the Housing Partnership Network to reduce its insurance costs. When its annual allocation from the city was threatened, CMHP drew on an extensive set of resources to keep its connection to the city. Ultimately it relied on its track record. "We had to show we weren't being wasteful," said a former board chairman. The organization used its connection with NeighborWorks to produce an audit of the organization's performance, and this was credited as contributing to the City Council's decision to maintain funding.

Adapt

The agenda of CMHP has changed over time as the capacity of the organization has grown and the need for different services has emerged. Initially the organization was focused on the purchase, rehab, and sales of for-sale housing. The financial exposure for each unit of housing was relatively small. Over time the organization added supportive services in order to generate more qualified buyers. As the market picked up in Charlotte, for-profit developers moved aggressively into the "entry level" homebuyer market. CMHP moved into developing rental housing, building its capacity with each deal. "If there is anything I've learned, if you don't change, you don't stick around," said Pat Garrett.

III. Results to Date

At the end of October 2007 the organization held $128 million in assets, either directly or through affiliate organizations. The organization has created over 2,800 units of affordable housing. CMHP owns and/or manages 907 units of affordable rental housing, and at the end of FY2007 had $10 million in assets under development. It has been credited with contributing to the turnaround of four of the heavily distressed neighborhoods that it initially worked in, and has been recruited to lead or contribute to efforts in many more.

IV. Challenges/Threats

Support of the Civic Sector

Revitalizing mixed-income communities and developing affordable housing requires significant subsidies and political will. The City of Charlotte shows remarkable clarity and purpose in its work, and civic leaders are willing to invest their time and expertise to move this agenda. As has already been noted, this support has been of tremendous value to The Housing Partnership and the success of their work. Keeping this support will be a major challenge for the organization, especially as elected and civic leadership changes over time.

Turnover of key staff

The organization went through a careful process when its initial CFO retired, promoting two young talented staff members in the process. While thinking through that transition the organization also created a succession plan for the current president. The Housing Partnership has a very strong second-tier staff, a strong board, and a well-run organization, which should give it choices when recruiting a new director. Still, given the very specialized skills of the original president and the importance of the position for the entire organization, a successful transition in top leadership will be critical when it occurs.

Ability to acquire development sites

Community revitalization requires the ability to acquire properties and assemble lots. In many urban areas, this land acquisition and assembly function is held by a public redevelopment authority. To date The Housing Partnership has been very good at acquiring property using private transactions, with minimal problems from hold-outs and rising prices. However, given Charlotte's continued growth, land prices would be expected to rise. Unless the City changes its stance on eminent domain, increased land costs will result in higher-cost grants, fewer projects, and less affordability.

Weakness in the housing market

CMHP reported that the foreclosure problems in the housing market have not affected them directly. Because they have generally structured their deals carefully, with the homeowner's success in mind, they have had relatively few defaults. However, private developers moving into the "entry level" homebuyer market were not as careful, making a lot of bad loans and concentrating "entry level" housing into segregated starter neighborhoods. The result of this has been considerable destabilization in some neighborhoods. The Housing Partnership may be called in to help stabilize these areas and address the problems there.

V. Lessons for Others

The method of civic support can promote performance

The City in particular is very clear about its goals in the neighborhoods. Everyone interviewed understood the goal of mixed-income communities and why that was important. City departments are held to quantitative and qualitative performance standards, and were encouraged to contract with external organizations for performance. CMHP's housing development works in concert with numerous other public and civic initiatives, providing a critical mass of complementary services that are needed to be effective. Corporate leaders were expected to make civic contributions, and high-level executives have gotten very involved in the details of making CMHP work very effectively, raising the bar on the level operations.

The Housing Partnership model promotes performance
CMHP is a centralized nonprofit housing developer in the City of Charlotte. It is are not the only housing developer, but it is the only one that has such a strong reputation and the ability to work citywide. This has allowed the organization to develop a critical mass of staff expertise and background, and enough of a pipeline of projects that it can operate with minimal ongoing operating subsidies.

The organization delivers
The Housing Partnership has been very smart about the deals that it has taken. For the most part all of its projects have been successful. It has developed the skills of its organization over time, and retained those skills by retaining staff. Every potential deal is scrutinized for its long-term impacts on the organization as well as the community. Political and business issues are balanced.

Clearinghouse CDFI

I. Overview

In the late 1980s, the Community Reinvestment Act (CRA) gained public visibility due to protests against bank mergers. In response to allegations that banks did not extend credit in the low- and moderate-income (LMI) communities where they drew deposits, consumer advocates in Orange County, California surveyed local banks to assess the adequacy of their products, services, delivery methods, and accessibility. Area banks did not fully cooperate, and advocacy groups organized a meeting with many financial institutions to pose their survey questions. From this interaction, advocates perceived the need for an intermediary between banks and nonprofit lenders, to raise local nonprofit lenders' level of sophistication with technical assistance and package deals to refer to banks for origination. The word "clearinghouse" came up several times to describe this role, and soon thereafter the Affordable Housing Clearinghouse (AHC) was founded in 1989.

With banks' CRA performance newly subject to public scrutiny, and capable of affecting merger and expansion plans, the environment was perfect for the creation of AHC. The high economic growth in California, coupled with even higher housing costs, made California one of the primary testing grounds for innovative collaboration to address CRA-related issues.

The first six years was a frustrating period for AHC. The organization was serving its purpose, but banks continued to question the viability of the deals being referred to them and, on the other extreme, were competing with AHC over deals they saw as profitable. The leaders of AHC were convinced that the loans they were referring to banks for origination represented a profitable and untapped market. In late 1995, the organization made the decision to spin off a for-profit company from AHC with $1 million in equity and $10 million in debt, raised almost exclusively from banks. In 1996, the Clearinghouse CDFI was incorporated and designated as a Community Development Financial Institution by the U.S. Department of Treasury; and in 1997 the organization began directly originating loans.

Clearinghouse CDFI see themselves as an agile lender to LMI communities with no "off the shelf" products, and open to stepping into any market to fill any unmet LMI credit need so long as it is financially feasible and profitable. Given their initial focus on Southern California (they are currently expanding into the Central Valley and are hoping to serve the entire state), it is no surprise that their portfolio consisted primarily of commercial real estate, land acquisition, and development loans. Today, the organization has leveraged the U.S. Department of Treasury's relatively new New Markets Tax Credit (NMTC) program into a sizeable portfolio and significant source of revenue.

II. Sustainability Strategy

The organization's philosophy of sustainability is directly tied to its business model. Clearinghouse identifies unmet LMI credit needs and develops profitable lending products to meet them (often in concert with partners until the market stabilizes). Clearinghouse also notes trends affecting their business and target markets, and works to respond quickly to market opportunities. As a for-profit lending venture, Clearinghouse maintains appropriate policies, procedures, controls, and internal risk management systems. The organization also places much emphasis and value on attracting and retaining strong managers and staff. Clearinghouse has had very little turnover in management, and no significant structural change since inception. The key executive staff have been together for approximately nine years and issues of succession have been clearly defined and approved at the board level. The staff has grown mostly through new hires in increasingly specialized positions, but remains small at 14.

III. Results to Date

Growth has been rapid for the organization. In 1998, they originated $5 million in loans; by the close of 2006 that number grew to $137 million. The latest audited financial statements for the organization show 2006 assets of $208 million (up from $165 million in 2005) with a net income of $3.9 million (up from $959,000 in 2005). Indications are that 2007 should match this growth and profitability trend.

As of 2007, most of the organization's $160 million portfolio consists of NMTC debt, with $20 million in land acquisition/development loans, $12 million in commercial real estate, and a small portfolio of mobile home, receivership, and small business loans. They also originate single-family home loans for sale to the California Housing Finance Agency (CalHFA) on a fee basis. Their sources of revenue include a Net Interest Margin (NIM) of 350 basis points on their core loan portfolio, the fee income derived from their origination and sale of single family loans to CalHFA, and a 1 percent per year fee over seven years for each of their New Markets Tax Credit deals.

Being a for-profit organization that has been profitable for six consecutive years with a relatively low cost of funds (averaging 4.5 percent) through CRA investments by banks and some program-specific foundation funding has allowed a greater freedom for the organization to be responsive to shifts in the market, and to take some calculated risks in expanding their product suite and geographic scope. For example, in response to the recent tightness in the mortgage credit market, Clearinghouse CDFI has responded quickly and has significantly increased the volume of this lending to take advantage of the conventional market's retreat, to help LMI borrowers and to take advantage of the CalHFA program before statewide budget cuts put it in jeopardy. Similarly, the organization has agreed to be the national conduit for a home mortgage program developed by the Opportunity Finance Network.

IV. Challenges/threats

A particular concern of the organization is uncertainty associated with NMTCs, as they are an integral component of their business model. Similarly, there is some concern regarding the longevity of their single family lending program with CalHFA, given state budget concerns. Many recent management and board conversations have focused on back-up plans if CalHFA ends its loan purchase program or if the organization continues to have trouble receiving an appropriate allocation of NMTCs. These are critical risks hanging over the organization in terms of achieving growth goals, but would not endanger the sustainability of the organization as a whole.

V. Lessons for others

An important aspect of the Clearinghouse business model is the skill and conviction to identify and serve new markets. This approach is not one of reckless trial and error, but one that requires the lender to work outside mainstream or established measures of credit worthiness, and gain intimate knowledge of forces affecting potential new markets, most importantly, weighing the prospects for profit, and thereby sustainability.

The most important asset an organization has is its reputation. Clearinghouse differentiates itself from competition by emphasizing customer service, attentiveness, and responsiveness. Inquiries are answered promptly, deadlines are met, and nobody is turned away without being heard and helped to the best of their ability.

Generations Community Credit Union

I. Overview

The mission of Generations Community Credit Union (Generations) is to provide strength and stability to communities throughout the state of North Carolina. Through consolidation of a group of smaller institutions, Generations formed into a larger, better capitalized, and more sustainable institution. Future growth and impact will hinge on integrating existing staff, setting up advisory boards to assure community engagement, building systems, and updating branches.

A decade ago there were 17 community development credit unions (CDCUs) in North Carolina. Today there are five. Seven smaller credit unions merged into Generations. A few of the community development credit unions (CDCUs) were merged into mainstream credit unions[53]. None of the smaller institutions was sustainable as a stand-alone entity, and indeed all were in receivership at the time of their assimilation into larger credit unions. Among the 10 branches that Generations comprised after the consolidation, only one closed. Nine North Carolina branches remain open, and serve mostly rural markets with otherwise very limited (local) access to financial services: Ahoskie, Durham, Edenton, Henderson, Roanoke Rapids, Washington, Williamston, Wilmington, and Windsor.

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[53] For example, Victory into Truliant; see *Credit Union Times,* Victory Masonic Mutual CU, Historic Black-owned Community CU, Merges With Truliant FCU in Unique Arrangement at: http://www.cutimes.com/article.php?article=17153. Accessed August 1, 2008.

The national record of credit union consolidation is that there are half as many (8,105) as there were in the late 1980s. Credit unions are merging at the rate of one per day. Throughout the trend of consolidation and what might be characterized as weakness in the sector generally, Generations has maintained its capital-to-assets ratio—at year end 2007 a robust 14.52 percent. It has doubled its asset size every second year. Even without additional mergers, the management projects 20 percent annual growth for the foreseeable future.

The institution's new president (28 days on the job when interviewed), Linwood Bowen, agreed to an interview for the case study. Bowen has a substantial background in commercial banking (Planter's Bank, which merged into Centura, which was then acquired by Royal Bank of Canada; the former First American Savings Bank; and BB&T [Branch Bank & Trust]). Subsequently he managed a $16 million church-building project.

Generations is more effective in meeting its mission goals thanks to a group of North Carolina credit unions and a large nonprofit that support one another in a variety of ways. These organizations work somewhat like a family in extending financial services and related services. The groups includes Center for Community Self Help, Self Help Ventures (Self-Help CU), State Employees Credit Union (SECU), North Carolina Minority Support Center (NCMSC), First Legacy CU, Generations Community CU, Greater Kinston CU, and Latino Community CU.

The North Carolina Minority Support Center is dedicated to relieving poverty, combating community deterioration, and creating jobs and home ownership opportunities for low- and moderate-income people throughout North Carolina in conjunction with the state's community credit unions. NCMSC provides four main services to its member credit unions:

- technical assistance,
- a capacity grants program,
- a capital support loan fund, and
- an accounting service center

NCMSC currently serves five credit unions: Latino, First Legacy, Generations, Self-Help, and Greater Kinston. The Center provides back office operations for Greater Kinston, First Legacy, and Generations.

NCMSC opened in 1991 as the nation's only statewide intermediary devoted to CDCUs. NCMSC offered technical assistance, training, and financial assistance to a growing industry. One early strategy of the NCMSC was to streamline technical assistance delivery by aligning all its member credit unions on a single data processing platform. Similarly, SECU provided data processing for Self-Help and Latino (and more substantially, all staffing and back office for GECU).

NCMSC formerly provided back office support and grant development for a dozen CDCUs in North Carolina. They found that smaller institutions had low growth, low loan demand, inability to create new products, and often an aging staff and board. When boards turned over, the credit unions could not find replacements willing to volunteer sufficient hours. When staff turned over, these institutions could not find replacements at their needed skill level and wage.

When Gateway was threatened by National Credit Union Administration (NCUA), the principal regulator for credit unions, NCMSC took a new approach, proposing to NCUA that NCMSC provide all staff for the credit union. The credit union (re-named Generations) was left with only a board and a management contract with NCMSC. As before, grants were funneled to Generations as substantial discounts on the management contract. Within three months, Generations received a merger request, and those requests continued until five CDCUs were merged in three years.

NCMSC's principal (though not sole) funder is the North Carolina legislature, which installed a separate budget line item to support the organization, currently $3.5 million annually. Besides servings as the field of membership[54] for Generations, NCMSC pays the salary of the President, and the operations and collections manager. NCMSC handles many data processing, marketing, and loan servicing functions, as well. Generations is not billed for these services. Only recently has the level of subsidy begun to be tracked. The NCMSC has invested $500,000-$600,000 in secondary capital in Generations, and performs most organizational development and fundraising functions for Generations.

During the extended merger process, NCMSC provided the data processing and relevant conversions to assimilate the formerly discrete entities into one. Self-Help provided due diligence for conversion by evaluating loan portfolios. NCMSC also provided the capital that facilitated the merger(s). The seven groups have considerable organizational/managerial overlap. The CEO of NCMSC is the CEO of Generations (Paula J. McCoy), for instance.

Generations has the overhead of a wide area branch system without financial assets to support the fixed assets. The original fear among the smaller credit unions that merged to form Generations was that the state put them all under one roof to shut them down. Generations is more inclined to grow than to pare down unprofitable assets.

Each of the smaller credit unions that merged to form Generations has legacies that complicate efforts to change and innovate at the collective new entity. Generations values community relationships and is reluctant to close branches, drop unprofitable services, or let go of staff (after mergers). It tends to keep existing staff in place, form a local advisory council, and preserve local ties, even preserve the expiring brand, as in St Luke's division of Generations.

II. Sustainability Strategy

Generations is built on the base of seven CDCUs that were merged, assumed, or purchased in the past six years. Due to the small size and troubled nature of these institutions, very few economies of scale resulted from the mergers.

The strategic plan for Generations:
- 20 percent asset growth to achieve sufficient business to support the branch structure.
- Make one branch self-sustaining within five years.
- Improve quality of loan portfolio.
- Address increasing competition.

[54] See NCUA Chartering and Field of Membership Manual at: http://www.ncua.gov/RegulationsOpinionsLaws/charter_manual/2003CharteringandFOMManual.pdf.

Objectives include:

- Diversify the customer base to include more middle-income households to get deposits to fund loan volume. The average deposit is now $1,000 and ideally should be closer to $5,000.
- Fill in the branch network in current counties by upgrading branch structure (most branches are downtown locations, with only one drive-through in the network).
- Improve services by technology upgrade for convenience through automation.
- Establish a church lending fund to gain deposits and build relationships with the faith community, and increase the membership to offer a variety of services and gain a greater audience to offer financial education.
- Reposition the credit union's brand and expand marketing efforts—currently targeted primarily to the African American community—to a broader audience.
- Explore further merger and/or branch deployment opportunities to broaden the reach and impact of the organization.

III. Results to Date

Generations Community CU emerged from a reorganization of Gateway CU in 2002, and is still in the start-up stage, building a statewide strategic plan. Generations' lending strengths are in retail lending: new and used auto, as well as limited unsecured lending. Mortgage loans for portfolio and resale comprise their largest dollar volume of lending. They use third party software to pre-qualify mortgage borrowers on-line. Generations would like to build an entrepreneur lending program for North Carolina.

Generations understands that sustainability is in the distant future. They picked up troubled institutions in order to preserve the strength and stability in communities by keeping marginally profitable or unprofitable financial services available. One of their strengths is their skill in bringing their case to funders, and continued outside funding is part of their strategy. It is difficult to envision a point at which external support will not be needed. Their plan shows one profitable branch by 2010, two by 2012.

IV. Challenges/threats

The financials show some typical CDCU weaknesses. Net income varies greatly, as grant income is periodic. Operating expenses are high, as might be expected in a small CU with nine branches. Average share deposit balances are low. Program Related Investments play a role, but these non-member deposits do not show up on the NCUA 5300 report, perhaps due to state regulation.

Generations is concerned about PRIs coming due from NCMSC. Bank mergers reduce the number of $100,000 deposits available.

Competition from banks in subprime markets is new on the horizon. For example, BB&T—a regional southeastern bank—services employers, and through the relationship cross sells to employees.

Of most concern is continuing delinquency and write-off excesses. Some of this is attributable to loans assumed during mergers. No federal or state recourse of guarantee was provided for these assumed assets. All the 2007 write-offs were for consumer loans. This CU anticipates increasing impact from the subprime mortgage crisis. Some of the mortgage problems are due to mortgage loan servicing problems from third party. Generations now believes its allowance for loan losses is overfunded.

There was a slowdown in loans and membership in 2007, perhaps resulting from the merger.

Much of the financial support this institution receives appears outside the balance sheet and income statement. Generations is part of the North Carolina extended CDFI-family. The wider N.C. CDFI strategy involves multiple corporations with substantial board overlap, overlapping markets, shared funding sources, and informal and formal shared back office operations

Jim Blaine, CEO of SECU, said about Latino CU, "We can't guarantee their success, but we can assure that they won't fail." The dense and nurturing CDFI environment in North Carolina allows Generations to experiment in innovation, to explore unanswered problems by seeking impact solutions, without directly addressing sustainability. They are not trying to build universal solutions; rather, they respond to local assets and needs, filling gaps.

V. Lessons for others

CDFIs are intimately built around local needs and resources. Because they are fitted to their communities, they are not replicable at the institutional level. However, successful products and processes may be replicable.

Experimentation is expensive and risky. Generations' concern is surviving as they refine their business model. Once they are mature enough to address impact, they will address sustainability.

The overriding factor in CDFI profiles is organization structure. Comparison across business models is unproductive and misleading.

CDFIs use multi-corporate structures to maintain multiple business models concurrently. It is difficult and disruptive to mix business models within one organization.

CDFIs are fundamentally niche players. However, mature CDFIs achieve sustainability by serving prime market customers as a source of cross-subsidy.

CDFIs engaged in innovation cannot complete enough transactions to achieve efficiency and increase profitability and thus sustainability. Generations has chosen to forgo immediate self-sufficiency in order to pursue scale over a longer term.

APPENDIX D: Case Study Interviewees

<u>Charlotte Mecklenburg Housing Partnership, Charlotte, North Carolina</u>
Patricia Garrett, President
Fred Dodson, Jr., Chief Operating Officer
David L. Howard, Vice President, Community Affairs
Lee Cochran, Chief Financial Officer
Ted Fillette, Attorney at Law and CMHP Board Member
Jim Burbank, Private Developer and Former CMHP Board Chairman
Stanley Wilson, Housing Services Mgr., Neighborhood Dev. Key Business Unit, City of Charlotte

<u>Clearinghouse CDFI, Lake Forest, California</u>
Douglas Bystry, President & CEO
Jay Harrison, Chief Investment Officer

<u>Community Trust Credit Union, Modesto, California</u>
Joe Duran, President
Sandell McLaughlin, Director of Community Development

<u>Generations Community Credit Union, Durham, North Carolina</u>
Linwood Bowen, President, Generations Community Credit Union
Tanya Branch, Vice President/Chief Financial Officer, North Carolina Minority Support Center,
Generations Community Credit Union Board of Directors
Randy Chambers, Generations Community Credit Union Board of Directors, Secretary/Treasurer

<u>Justine Petersen Housing and Reinvestment Corporation, St. Louis, Missouri</u>
Robert Boyle, Chief Executive Officer, Justine Petersen
Sheri Flanigan-Vasquez, Chief Operating Officer, Justine Petersen
Galen Gandolfi, Senior Loan Officer, Justine Petersen
Joseph Soer, Chief Financial Officer, Justine Petersen
Patricia Barrett, Principal, EMD Consulting
Patricia Rich, Principal, EMD Consulting
Jorge Riopedre, Principal, CarisMedia
Shera Dalin, Principal, CarisMedia
Filomena Angelucci-Dean, Board Member, Justine Petersen

<u>Legacy Bancorp, Milwaukee, Wisconsin</u>
Deloris Sims, President and CEO
Mark R. Norville, Chief Financial Officer
Sally R. Peltz, President, Legacy Redevelopment Corporation

<u>ShoreBank Enterprise Cascadia, Ilwaco, Washington</u>
John Berdes, President

<u>University National Bank, St. Paul, Minnesota</u>
David C. Reiling, Chief Executive Officer
Nikki M. Foster, Assistant Vice President of Corporate Administration

APPENDIX E: Additional Expert Resources

Nancy O. Andrews, President and CEO, Low Income Investment Fund
Elyse D. Cherry, CEO, Boston Community Capital; and President, Boston Community Venture Fund
Kristin Faust, Former President, Enterprise Community Loan Fund
William R, Frey, Executive Vice President, Enterprise Community Partners; Interim President, Enterprise Community Loan Fund (at the time of the interview)
Colette Fried, Assistant Vice President and Regional Director, Supervision and Regulation, Federal Reserve Bank of Chicago
Ronda Kotelchuck, Executive Director, Primary Care Development Corporation
Tom Manning, Director of Capital Access, Primary Care Development Corporation
Lisa Richter, Co-Founder and Partner, GPS Capital Partners
Karen Seabury, Community Development Consultant

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